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ICSE Examination Paper 2026

Class-X

ECONOMICS

Time: 2 Hours **Max. Marks: 100**

General Instructions:

1. Answer to this Paper must be written on the answer sheet provided separately.
2. You will not be allowed to write during first 15 minutes.
3. This time is to be spent in reading the question paper.
4. The time given at the head of this Paper is the time allowed for writing the answers.
5. Attempt all questions from Section-A and any four questions from Section-B.
6. The intended marks for questions or parts of questions are given in brackets [ ].

SECTION - A

(Attempt all question from this Section.)

1. Choose the correct answers to the questions from the given options.
(Do not copy the questions, write the correct answer only).

(i) When ABC Electronics implemented division of labour, the workers became more productive. This happened due to _____.
(a) Rotation
(b) Motivation
(c) Mechanisation
(d) Specialisation

Ans :

(d) Specialisation
Division of labour leads to specialisation, where each worker repeatedly performs a specific task. This repetition makes workers highly skilled and efficient in their assigned work, resulting in increased productivity and better quality output.

(ii) What will be the elasticity of demand for the given commodity as shown in the picture?



(a) Elastic
(b) Unit elastic
(c) Inelastic
(d) Perfectly elastic

Ans :

(c) Inelastic
Salt is a basic necessity with no close substitutes. Consumers must buy it regardless of price changes. Therefore, even if the price of salt rises significantly, its demand remains almost unchanged, making it a perfectly inelastic or highly inelastic commodity.

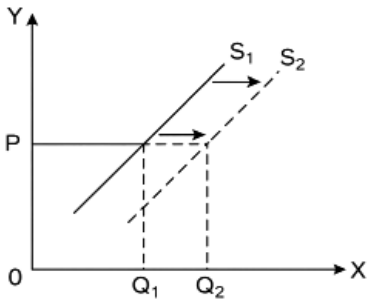
(iii) When income increases, the demand for type of goods will increase:
(a) Inferior
(b) Giffen
(c) Normal
(d) Homogeneous Necessities

Ans :

(c) Normal
Normal goods have a positive relationship with income. As consumer income rises, demand for normal goods increases proportionally. Examples include branded clothes and electronics. Inferior goods behave oppositely — their demand falls as income increases.

(iv) The following supply curve shifts from S_1 to S_2. It may be due to:

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(a) Increase in tax
(b) Improvements of technology
(c) Rise in the price of inputs
(d) Increase in the number of producers

Ans :

(d) Increase in the number of producers
The supply curve shifting rightward from S_1 to S_2 indicates an increase in supply. When more producers enter the market, total market supply increases, shifting the supply curve to the right. Tax increases and input price rises would shift it leftward.

(v) **Statement 1:** Income tax, GST, and Custom Duties are examples of Tax Revenues.
Statement 2: Excise and Forfeitures are also part of Tax Revenues.
(a) Both Statement 1 and 2 are true.
(b) Both Statement 1 and 2 are true, but Statement 2 is not the correct explanation of Statement 1.
(c) Statement 1 is true, but Statement 2 is false.
(d) Statement 1 is false, but Statement 2 is true.

Ans :

(c) Statement 1 is true, but Statement 2 is false.
Excise duties are indeed Tax Revenues, but Forfeitures are Non-Tax Revenues as they are penalties collected by the government. Income tax, GST, and Customs are correctly classified as Tax Revenues.

(vi) Which of the following leads to a situation where people are unable to trade with each other?
(a) Lack of Double Coincidence of Wants
(b) Lack of Durability
(c) Lack of Common Measure of Value
(d) Problem of Storing Wealth

Ans :

(a) Lack of Double Coincidence of Wants
In barter system, both parties must want exactly what the other offers. Without this double coincidence, trade becomes impossible. Money solved this problem by acting as a common medium of exchange accepted by everyone.

(vii) Someone is a trained nurse who offers services to a hospital. Once her duty hours end, she cannot carry forward her usual services to the next day.
(a) Labour is mobile
(b) Labour is perishable
(c) Labour is not homogeneous
(d) Labour can be separated from the labourer

Ans :

(b) Labour is perishable
The nurse's unused working hours cannot be stored or transferred to the next day, proving labour is perishable. Unlike physical goods, labour loses its value permanently if not utilised at the appropriate time.

(viii) **Assertion (A):** Commercial banks accept various types of deposits to meet the needs of different customers.
Reason (R): Fixed deposits allow consumers to deposit money for a specific period and earn high interest, while current deposits do not help in earning interest but help in frequent transactions for businesses.
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).
(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
(c) Assertion (A) is true, but Reason (R) is false.
(d) Assertion (A) is false, but Reason (R) is true.

Ans :

(a) Both (A) and (R) are true and (R) is the correct explanation of (A)
Commercial banks accept fixed deposits for high interest earnings and current deposits for frequent business transactions. This directly explains how banks meet diverse customer needs, making Reason a correct explanation of the Assertion.

(ix) If Blades and Shaving Creams are considered as substitute goods, then which of the following pairs is considered as complementary goods?
(a) Oats and Corn bran
(b) Toothbrush and Toothpaste
(c) Petrol cars and Electric cars
(d) LPG and CNG

Ans :

(b) Toothbrush and Toothpaste

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Complementary goods are used together and have no value independently. Toothbrush and toothpaste are always used jointly. Petrol cars and electric cars are substitutes, while LPG and CNG are also alternative energy sources.

(x) Goods like fruits and vegetables are best described as examples of which type of market form?
(a) Perfect competition
(b) Monopoly
(c) Oligopoly
(d) Monopolistic competition

Ans :

(a) Perfect Competition
Fruits and vegetables are sold by numerous sellers with identical products, free entry and exit, and no price control by any single seller. These features perfectly match the characteristics of a perfectly competitive market.

(xi) Study the relationship in the first pair of words and complete the second pair:
Right to be Informed : Information about products
Right to Seek Redressal : _____
(a) Choices of goods available in the market
(b) Awareness about environmental impact
(c) Protection against hoarding
(d) Fair compensation for defective goods and services

Ans :

(d) Fair compensation for defective goods and services
Just as Right to be Informed relates to product information, Right to Seek Redressal relates to obtaining fair compensation for defective goods and services. It allows consumers to legally seek remedies against unfair trade practices.

(xii) During the time of inflation, the Central Bank will _____ in order to stabilise the economy.
(a) Buy Government Securities
(b) Decrease the Cash Reserve Ratio
(c) Sell Government Securities
(d) Decrease Statutory Liquidity Ratio

Ans :

(c) Sell Government Securities
During inflation, the Central Bank sells government securities to absorb excess money from the economy. This reduces money supply with commercial banks, limits their lending ability, and helps control rising prices effectively.

(xiii) In case of cash credit, interest is charged to the borrower on the amount actually withdrawn from the loan account.
(a) True
(b) False

Ans :

(a) True
In cash credit, the borrower is given a credit limit but interest is charged only on the amount actually withdrawn, not the entire sanctioned limit. This makes it a flexible and cost-effective short-term borrowing arrangement.

(xiv) Which of the following is NOT a cause of Cost Push Inflation?
(a) Administered prices
(b) Rise in population
(c) Fluctuations in output and supply
(d) Enhanced taxation

Ans :

(b) Rise in population
Rise in population increases demand for goods, causing Demand Pull Inflation, not Cost Push Inflation. Cost Push Inflation is caused by rising production costs like administered prices, input costs, taxation, and supply fluctuations.

(xv) The Government of India borrows a large sum of money from international financial institutions to build highways and modernise railway infrastructure. This situation is an example of:
(a) Debt used for productive purpose
(b) Internal debt
(c) Public revenue
(d) Net debt

Ans :

(a) Debt used for productive purpose
Borrowing from international institutions to build highways and modernise railways is productive debt as it creates long-term infrastructure assets. These investments generate economic returns, improve connectivity, and contribute significantly to national development and growth.

(xvi) In which form of market do both buyers and sellers have accurate and complete information about market conditions?
(a) Oligopoly
(b) Monopolistic competition
(c) Monopoly
(d) Perfect competition

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Political Science



Psychology



Sociology



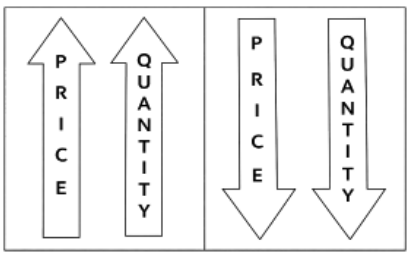
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Ans :

(d) Perfect Competition
Perfect competition is characterised by complete and transparent information for both buyers and sellers about prices, products, and market conditions, ensuring no party has an unfair informational advantage over others.

2. (i) Define the concept of consumer capitalism.
(ii) "Risk bearing is the backbone of entrepreneurship." Justify the statement.
(iii) What is meant by the "Margin Requirement" on invested capital?
(iv) Which concept is depicted in the growth image and explain the concept?

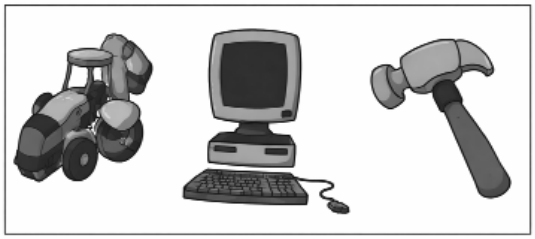


Ans :

(i) Consumer capitalism is an economic system where consumer spending and demand drive production and economic growth. Businesses constantly produce goods and services to satisfy ever-increasing consumer wants, and advertising plays a key role in stimulating consumption.
(ii) An entrepreneur invests capital, time, and resources without any guarantee of returns. They face risks of financial loss, market failure, and uncertainty. Without willingness to bear these risks, no new business venture would ever be started or innovated upon.
(iii) Margin Requirement refers to the minimum percentage of a loan's value that a borrower must contribute from their own funds when purchasing securities. The Central Bank fixes this margin to control speculative borrowing and regulate credit flow in the economy.
For example, if margin requirement is 40%, the borrower can only get a loan of 60% of the asset value.
(iv) The concept depicted is Inflation followed by Deflation or the Price-Quantity inverse relationship showing business cycle fluctuations.
1. The first set of arrows shows Price and Quantity rising — representing an inflationary phase where increased demand pushes both prices and production upward
2. The second set shows Price and Quantity falling — representing a deflationary or recessionary phase where demand drops, causing prices and output to decline

This depicts how an economy moves through boom and bust cycles, with prices and quantities fluctuating in response to changes in demand, supply, and monetary conditions.

3. (i) Explain the meaning of Hyperinflation.
(ii) Outline two primary reasons why economists consider that the supply of land is fixed.
(iii) Define the term Regenerative Tax.
(iv) Observe the image and identify the type of capital it represents. Briefly explain your answer.



Ans :

(i) Hyperinflation is an extremely rapid and uncontrolled rise in the general price level of an economy, typically exceeding 50% per month. Money loses its value rapidly, causing economic instability. A classic example is Zimbabwe in 2008, where prices doubled every few hours.
(ii) Two primary reasons why economists consider that the supply of land is fixed.
1. Geographical Limitation: The total surface area of land on Earth is naturally fixed and cannot be increased or decreased by human effort, making its overall supply perfectly inelastic regardless of price changes.
2. Indestructibility: Land cannot be destroyed or created. Unlike other factors of production, its quantity remains constant — only its use can change, but the total available supply always stays the same.
(iii) Regenerative Tax is a type of taxation where the revenue collected is reinvested back into the economy or environment to restore

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and regenerate resources. It aims to fund sustainable development, environmental restoration, and social welfare programmes that benefit society as a whole.

(iv) The type of capital represented is Physical Capital (also called Real Capital or Man-made Capital).
All three objects — a tractor, computer, and hammer — are man-made tools and machinery used in the production of goods and services. They are not consumed directly but are used repeatedly to aid production. Physical capital includes all manufactured assets like tools, machinery, equipment, and technology that help increase productivity and output in an economy.

4. (i) State one point of difference between fundal debt and unfunded debt.

(ii) The elasticity of demand tends to be higher in the long run than in the short run.
(a) Do you agree with statement
(b) Justify your answer with a reason

(iii) Ravi deposits 50,000 in his savings account in a commercial bank. The bank loans a part of this money to give loans to another customer. This process is repeated with other deposits and borrowers.
(a) Identify whether Ravi's deposit is primary or derivative.
(b) Give a reason for your choice.

(iv) How is the Veblen Effect an exception to the law of demand?

Ans :

(i) Difference between Funded Debt and Unfunded Debt:s

Basis	Funded Debt	Unfunded Debt
Repayment Period	Long-term debt repaid over many years through a dedicated fund	Short-term debt repaid within one year, no specific fund created

(ii) (a) Yes, I agree with the statement that elasticity of demand is higher in the long run than in the short run.
(b) Reason : In the short run, consumers have limited time to adjust their habits and find alternatives. In the long run, consumers can explore substitutes, change preferences, and adapt their behaviour, making demand more responsive to price changes and thus more elastic.

(iii) (a) Ravi's deposit of ₹50,000 is a Primary Deposit.
(b) Reason : A primary deposit is one where a customer deposits actual cash directly into the bank from outside the banking system. Ravi deposited his own money in cash — it did not originate from any bank loan. The loans given by the bank using Ravi's deposit create Derivative Deposits, not the original deposit itself.

(iv) The Law of Demand states that as price rises, demand falls. However, the Veblen Effect states that for certain prestigious luxury goods called Veblen Goods — such as luxury cars, designer bags, and expensive jewellery — demand actually increases as price rises.
Wealthy consumers purchase these goods precisely because of their high price, as it signals social status, prestige, and exclusivity. A lower price would reduce their appeal and desirability among status-conscious buyers.
Thus, the demand curve for Veblen goods slopes upward, making it a clear exception to the Law of Demand.

SECTION - B

(Answer any four questions from this Section.)

(i) Land is one of the most important factors of production. In this context, explain the factors that affect the productivity of land.

(ii) State any four differences between Commercial Banks and Central Bank.

Ans :

(i) Factors affecting the productivity of land:
1. Fertility of Soil : The natural fertility and mineral content of land directly determines its productivity. Land with rich, nutrient-dense soil yields higher agricultural output compared to barren or degraded land, making soil quality the most fundamental factor.
2. Climate and Rainfall : Adequate rainfall, suitable temperature, and favourable climatic conditions significantly enhance land productivity. Regions with balanced climate support diverse and abundant crop growth, while extreme climates reduce agricultural and economic output

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considerably.

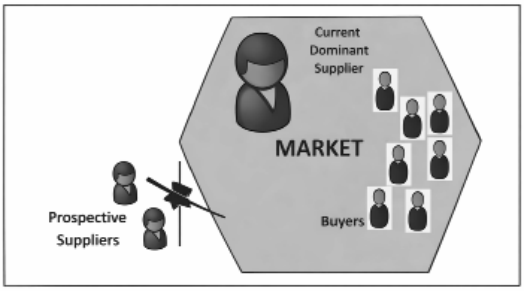
3. Location : Land located near markets, transport networks, and urban centres has higher productivity and economic value. Accessibility reduces transportation costs and enables faster movement of goods, making well-located land more productive for both agriculture and industry.
4. Irrigation Facilities : Availability of proper irrigation infrastructure compensates for irregular rainfall. Well-irrigated land can support multiple crop cycles annually, dramatically increasing output and making land productive throughout the year regardless of seasonal variations.
5. Human Efforts and Technology : Application of modern farming techniques, quality seeds, fertilisers, and machinery significantly improves land productivity. Skilled human effort combined with technological advancement can transform even moderately fertile land into highly productive agricultural or industrial land.

(ii) Four differences between Commercial Banks and Central Bank:

Basis	**Commercial Bank**	**Central Bank**
Ownership	Usually privately or publicly owned profit-seeking institutions	Owned and controlled by the government of the country
Function	Accepts deposits and provides loans to individuals and businesses	Issues currency, controls money supply and credit in the economy
Profit Motive	Operates primarily to earn profit for shareholders	Not profit-driven; works for national economic stability and welfare
Relationship with Public	Directly deals with the general public for banking services	Does not deal directly with public; acts as banker to commercial banks

6. (i) Analyze the image of the market given below:

(a) Identify the type of market referred to in the given image.



(b) Explain any three characteristics of the classified market.

(ii) State and explain any five characteristics of Capital.

Ans :

(i) (a) The image shows one Current Dominant Supplier, multiple Buyers, and Prospective Suppliers trying to enter the market. This represents a Monopoly market transitioning or a Dominant Firm Oligopoly, but most accurately it depicts Oligopoly — where one dominant supplier controls the market with few prospective competitors trying to enter.

(b) Three characteristics of Oligopoly:

1. Few Large Sellers : The market is dominated by a small number of large firms. Each firm has significant market share and any decision made by one firm directly affects the others, leading to mutual interdependence among sellers.
2. Barriers to Entry : New firms face significant barriers entering the market such as high capital requirements, patents, and economies of scale. The image shows prospective suppliers struggling to enter, reflecting this characteristic clearly.
3. Interdependence : Each firm must consider the reactions of rival firms before making pricing or output decisions. A price change by one firm triggers immediate responses from competitors, making strategic decision-making essential in oligopoly markets.

(ii) Five characteristics of Capital:

1. Man-made Factor : Capital is not a natural gift like land. It is created by human beings through savings, investment, and production. Tools, machinery, computers,

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and buildings are all examples of man-made capital assets.

2. Productive : Capital significantly increases the productivity of other factors of production. Using machinery and technology alongside labour and land produces far greater output than using labour and land alone without any capital support.
3. Perishable/Depreciates : Unlike land, capital depreciates over time through regular use and wear and tear. Machinery and equipment lose their value gradually and must be regularly maintained, repaired, or replaced to sustain productive efficiency.
4. Highly Mobile : Capital is one of the most mobile factors of production. It can be easily moved from one place, industry, or country to another in search of higher returns, making it more flexible than land or labour.
5. Subject to Diminishing Returns : Like other factors, capital is subject to the law of diminishing returns. Adding more capital beyond an optimal level to fixed factors will eventually yield smaller and smaller increases in output and productivity.

7. (i) (a) Define the barter system of exchange.
(b) List the last three stages in the evolution of money.
(ii) With the help of a graph, explain the contraction of demand.

Ans :

(i) (a) Barter System of Exchange : The barter system is a method of exchange where goods and services are directly traded for other goods and services without the use of a medium of exchange, such as money. For a barter transaction to occur, there must be a double coincidence of wants, meaning both parties must simultaneously have what the other person desires.

(b) Last Three Stages in the Evolution of Money : The evolution of money transitioned from physical commodities to intangible digital records. The final three stages are:

1. Paper Money: Originally introduced as receipts for gold or silver held in banks, it evolved into "fiat money"—currency that has value because a government maintains its status as legal tender.
2. Credit Money (Bank Money): This includes instruments like checks, drafts, and credit cards. It represents a transfer of bank deposits rather than the physical movement of cash.
3. Electronic Money (E-Money): The most modern stage, involving digital transactions via electronic networks. This includes mobile wallets, online banking, and cryptocurrencies.

(ii) Contraction of Demand refers to a decrease in the quantity demanded of a commodity due to an increase in its own price, while all other factors (like income, tastes, and prices of related goods) remain constant (ceteris paribus).

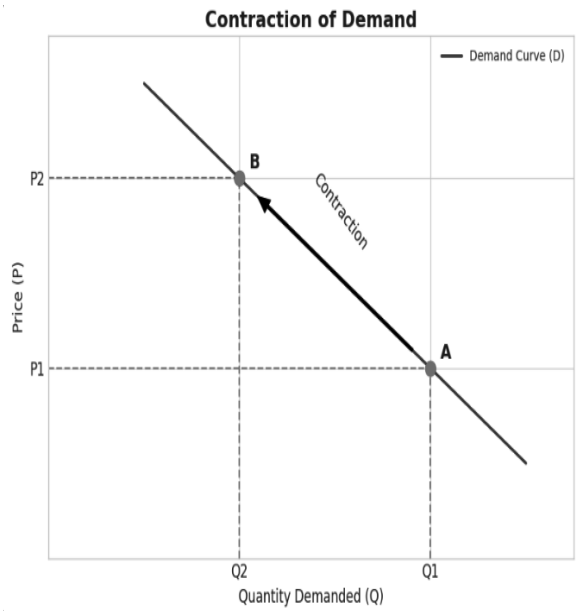
Key characteristics of contraction:

1. It is represented by a movement along the same demand curve.
2. The movement is upward and to the left.
3. It is caused solely by a change in the price of the product itself.

Graphical Explanation : In the graph:

1. The Y-axis represents the Price (P), and the X-axis represents the Quantity Demanded (Q).
2. Initially, at price P_1, the quantity demanded is Q_1.
3. When the price rises to P_2, the quantity demanded falls to Q_2.
4. This change is shown by moving from point A to point B on the demand curve D. This upward movement illustrates the contraction of demand.

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8. (i) What is Public Expenditure?
(ii) State and explain any three types of direct tax.
(iii) How are consumers exploited by retailers?

Ans :

(i) Public Expenditure : Public Expenditure refers to the expenditure incurred by the government — central, state, or local — to fulfill its administrative, social, developmental, and economic obligations. It includes spending on defence, education, healthcare, infrastructure, subsidies, and public welfare programmes to promote economic growth and social well-being of the nation.

(ii) Three types of Direct Tax:

1. Income Tax : Income tax is levied directly on the income earned by individuals, Hindu Undivided Families (HUFs), and businesses during a financial year. It is a progressive tax — higher income attracts higher tax rates. It is collected by the central government and is the largest source of direct tax revenue in India.
2. Corporate Tax : Corporate tax is charged on the net profits earned by companies and corporations registered in India. Both domestic and foreign companies operating in India are liable to pay corporate tax. The rate differs for domestic and foreign companies and is regulated by the Income Tax Act.
3. Capital Gains Tax : Capital gains tax is imposed on the profit earned from the sale of capital assets such as property, shares, gold, or bonds. It is classified as Short Term Capital Gains (STCG) for assets held less than a specified period, and Long Term Capital Gains (LTCG) for assets held longer, with different tax rates applicable to each.

(iii) Consumers are exploited by retailers in the following ways

1. Adulteration and Substandard Goods : Retailers mix inferior or harmful substances in food products and sell substandard goods at full price. Consumers unknowingly purchase poor quality products, risking their health and not receiving fair value for money spent.
2. Overcharging and False Weights : Some retailers charge prices higher than the Maximum Retail Price (MRP) or use faulty weights and measures to give less quantity than what the consumer pays for, directly cheating them financially.
3. False and Misleading Advertising : Retailers and manufacturers use exaggerated or false claims about product quality, benefits, and ingredients to lure consumers. Customers buy products based on misleading information and end up with goods that do not match their expectations.
4. Hoarding and Black Marketing : Retailers deliberately create artificial shortages by hoarding essential goods and then selling them at inflated prices during scarcity. This forces consumers to pay much higher prices for basic necessities during emergencies or festivals.
5. Selling Expired Products : Some unscrupulous retailers sell goods past their expiry date, especially medicines and food items, which can be extremely dangerous to consumer health and amounts to a serious form of exploitation.

9. (i) (a) Define the term demand.
(b) Complete the following market demand schedule.

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Price of Tomato (₹ per kg)	Demand by Consumer A (kg per month)	Demand by Consumer B (kg per month)	Demand by Consumer C (kg per month)	Market Demand (kg per month)
10	2	6	8	I.__
8	4	II.__	9	20
6	8	9	III. __	27

(ii) With reference to elasticity of supply, name and draw a neatly labelled diagram to show:
(a) Es < 1
(b) Es $= 1$

Ans :

(i) (a) Definition of Demand: Demand refers to the quantity of a commodity that a consumer is willing and able to purchase at a given price, during a given period of time. It involves both the desire to buy and the purchasing power to back that desire.

(b) Completed Market Demand Schedule:

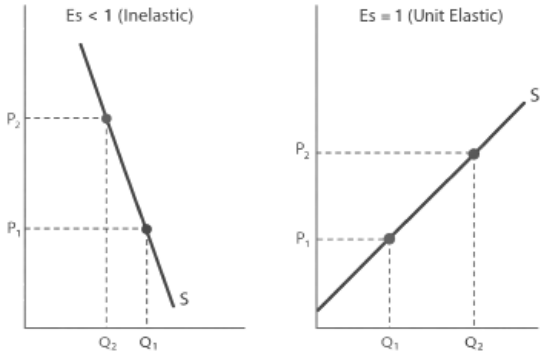
Price of Tomato (₹ per kg)	Demand by Consumer A (kg per month)	Demand by Consumer B (kg per month)	Demand by Consumer C (kg per month)	Market Demand (kg per month)
10	2	6	8	I. 16
8	4	II. 7	9	20
6	8	9	III. 10	27

Calculations:
I. $2 + 6 + 8 = 16$
II. $20 - 4 - 9 = 7$
III. $27 - 8 - 9 = 10$

(ii) Elasticity of Supply diagrams:

(a) Es $<$ 1 (Inelastic Supply): When a proportionate change in price leads to a less than proportionate change in quantity supplied. The supply curve is steeper. The supply curve is steeper. A large rise in price (P_1 to P_2) causes only a small increase in quantity supplied (Q_1 to Q_2). Example: agricultural goods in the short run.

(b) Es $= 1$ — Unit Elastic Supply: The supply curve passes through the origin at exactly 45°. A proportionate rise in price causes an equal proportionate increase in quantity supplied. The percentage change in price equals the percentage change in quantity supplied.



10. (i) (a) Define Public Debt.
(b) Explain any three causes of growth of Public Expenditure.

(ii) Read the extract and answer the questions that follow:
As the economy experiences rapid growth, consumers' disposable incomes rise, and they become more willing to spend on goods and services. This leads to upward pressure on prices, particularly in sectors where supply is limited.
(a) Identify the type of inflation described in the above extract.
(b) Briefly explain the nature of the inflation mentioned in (a).
(c) State and explain any three causes of the type of inflation discussed above.

Ans :

(i) (a) Public Debt : Public Debt refers to the total amount of money borrowed by the government from internal sources (citizens, banks, financial institutions) and external sources (foreign governments, international institutions like IMF and World Bank) to meet its expenditure when tax revenues and other receipts are insufficient to cover government spending.

(b) Three causes of growth of Public Expenditure:
1. Defence and Security : Modern warfare requires sophisticated weapons, technology, and a large trained military force. Governments must continuously increase spending on defence equipment, border security, and military personnel to protect national sovereignty and maintain internal security.
2. Social Welfare Programmes : Growing population demands increased government spending on education, healthcare, housing, and poverty

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alleviation schemes. Governments spend heavily on social security, subsidies, and welfare programmes to improve living standards and reduce inequality among citizens.

3. Infrastructure Development : Rapid economic development requires massive investment in roads, railways, airports, power plants, and digital infrastructure. Governments must continuously spend on building and maintaining such infrastructure to support industrial growth and improve national productivity and connectivity.

(ii) (a) The type of inflation described is Demand Pull Inflation.

(b) Nature of Demand Pull Inflation : Demand Pull Inflation occurs when the aggregate demand in the economy exceeds the aggregate supply of goods and services. As consumers' incomes rise and spending increases, total demand pulls prices upward — especially when supply cannot keep pace with growing demand. It is often described as "too much money chasing too few goods." It typically occurs during periods of economic boom and prosperity.

(c) Three causes of Demand Pull Inflation:

1. Rise in Disposable Income: When consumers earn higher incomes due to economic growth, salary hikes, or tax cuts, their purchasing power increases significantly. This leads to greater consumer spending on goods and services, pushing aggregate demand beyond available supply and causing prices to rise.
2. Increase in Government Expenditure : When the government increases its spending on public projects, welfare schemes, and defence without a proportionate increase in production, it injects excess money into the economy. This additional spending raises aggregate demand, creating inflationary pressure on prices.
3. Expansion of Credit : When commercial banks lower interest rates and make credit easily available, consumers and businesses borrow more and spend freely. This surge in credit-financed spending significantly boosts aggregate demand beyond the economy's productive capacity, pulling prices upward rapidly.

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ICSE EXAMINATION PAPER-2025
CLASS X
ECONOMICS

Time : 2 Hours **Max. Marks : 80**

General Instructions:

1. Answer to this Paper must be written on the answer sheet provided separately.
2. You will not be allowed to write during first 15 minutes.
3. This time is to be spent in reading the question paper.
4. The time given at the head of this Paper is the time allowed for writing the answers.
5. Attempt all questions from section-A and any four questions from section-B
6. The intended marks for questions or parts of questions are given in brackets [ ].

VIDYA INDIA

SECTION-A

(Attempt all questions from this section)

QUESTION 1.

Choose the correct answers to the questions from the given options.

(Do not copy the question, write the correct answers only.)

(i) In economics, what does the capital earn as income?
(a) Wages
(b) Rent
(c) Profit
(d) Interest

Ans :

(d) Interest
In economics, capital refers to assets like money, machinery, and equipment used in production. The income earned from capital is called interest because it represents the return on invested money or borrowed funds. Unlike labor, which earns wages, and land, which earns rent, capital generates income through interest when it is lent or invested.

(ii) Which of the following are examples of substitute goods?
(a) Coke and Coffee
(b) Pencil and Eraser
(c) Tea and Sugar
(d) Apple iPhones and Samsung Smart Phone

Ans :

(d) Apple iPhones and Samsung Smart Phones
Substitute goods are products that can replace each other in consumption. When the price of one increases, the demand for the other rises. Apple iPhones and Samsung smartphones are substitutes because they offer similar features and compete in the same market. In contrast, tea and sugar are complementary goods, meaning they are used together rather than replacing each other.

(iii) **Assertion (A) :** Mr. Gupta earns a fixed income every month, but he tends to get adversely affected during inflation.
Reason (R) : The prices of goods, services and the cost of living, does not rise in the same proportion as income, during inflation.
(a) Both (A) and (R) are true and (R) is the correct explanation of (A).
(b) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(c) Both (A) and (R) are false.
(d) (A) is false and (R) is true.

Ans :

(a) Both (A) and (R) are true, and (R) is the correct explanation of (A).
Inflation reduces the purchasing power of money because prices of goods and services increase. If Mr. Gupta's income remains fixed, he will struggle to afford the same products as before. Inflation does not always lead to an equal rise in income, making people on fixed incomes financially weaker. Therefore, the reason correctly explains the assertion.

(iv) Amit buys 1 kg of mangoes at120 per kg. Other things remaining constant, when the price of mangoes falls to ₹90 per kg, he buys ₹2 kg of mangoes. Amit's choice in the given situation shows which concept?
(a) Demand schedule
(b) Market demand
(c) Contraction of demand
(d) Expansion of demand.

Ans :

(d) Expansion of demand
The law of demand states that when the price of a good decreases, its demand increases (assuming other factors remain constant). Here, Amit buys more mangoes when the price drops, which indicates an expansion of demand. This is different from contraction of demand, which happens when demand decreases due to a price increase.

(v) The rate of tax, which is uniform for all the taxpayers, is termed as:
(a) Progressive
(b) Proportional
(c) Regressive
(d) Direct

Ans :

(b) Proportional
A proportional tax applies the same percentage of tax to all income levels, regardless of how much a person earns. For example, if the tax rate is 10%, a person earning 1 lakh and another earning 10 lakh both pay the same percentage of their income. This differs from a progressive tax, where higher earners pay a larger percentage, and a regressive tax, which burdens lower-income groups more.

(vi) Which factor will be responsible for 'product diversification' through innovation?
(a) Labour
(b) Entrepreneur
(c) Capital
(d) Landowner

Ans :

(b) Entrepreneur
An entrepreneur is responsible for innovation, business growth, and product diversification. They introduce new products, improve existing ones, and invest in research and development. Capital and labor are important, but without an entrepreneur's vision and risk-taking ability, product diversification would not occur.

(vii) **Statement 1 :** The primary function of money is to act as a 'store of value'.
Statement 2 : Money helps in monetary expression of the market value of the commodity.
(a) Both Statement 1 and Statement 2 are true.
(b) Both Statement 1 and Statement 2 are false.
(c) Statement 1 is true and Statement 2 is false.
(d) Statement 1 is false and Statement 2 is true.

Ans :

(a) Both Statement 1 and Statement 2 are true.
Money acts as a store of value, meaning it retains purchasing power over time and can be saved for future use.
It also serves as a unit of account, helping in pricing goods and services in the market.
Thus, both statements correctly describe essential functions of money in an economy.

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(viii) BIS stands for:
(a) Bureau of Indian States
(b) Bureau of Indian Standards
(c) Bureau of Indian System
(d) Bureau of Indian Solutions

Ans :

(b) Bureau of Indian Standards
The Bureau of Indian Standards (BIS) is the national body responsible for setting and maintaining quality, safety, and efficiency standards for products in India. BIS certification ensures that goods meet industry regulations, providing consumer protection and boosting exports.

(ix) Study the table and examine the relation between price and quantity supplied:

Price (₹)	**Quantity supplied (kgs)**
10	5
12	7
14	9

(a) Positive
(b) Negative
(c) Indirect
(d) Proportional

Ans :

(a) Positive
According to the law of supply, when the price of a good increases, its supply also increases because sellers are willing to produce and sell more at higher prices. Here, as the price rises from 10 to

14, the quantity supplied increases from 5 kg to 9 kg, showing a positive relationship.

(x) Which market structure has the least number of sellers?
(a) Oligopoly
(b) Monopolistic competition
(c) Monopsony
(d) Perfect competition

Ans :

(c) Monopsony
Monopoly has one seller and many buyers.
Monopsony has one buyer and many sellers.
Oligopoly has few dominant sellers.
Perfect competition has many sellers and buyers.
Since monopsony has only one buyer, it is the market structure with the least number of sellers, as multiple sellers compete for that single buyer.

(xi) Direct taxes are regressive in nature.
(a) True
(b) False

Ans :

(b) False
Direct taxes, such as income tax, are progressive, meaning higher-income earners pay a larger percentage of their income in taxes. This reduces income inequality. A regressive tax, like GST or sales tax, affects lower-income groups more, as they pay the same tax rate regardless of their earnings. Therefore, direct taxes are not regressive but progressive.

(xii) The above image depicts stages of _____.



(a) Capital formation
(b) Capital returns
(c) Capital movement
(d) Investment of savings

Ans :

(a) Capital formation
The image represents the process of capital formation, which involves three stages:
1. Savings – Individuals or businesses set aside a portion of their income.
2. Mobilisation of Savings – Financial institutions collect and channel these savings into productive uses.
3. Investment – The mobilized savings are used to purchase assets, start businesses, or fund infrastructure, leading to economic growth.

(xiii) Radhika cannot postpone her demand for woollen clothes during winter season but at the same time can postpone her demand for a car. This is because her demand for woollen clothes is:
(a) Elastic
(b) Inelastic
(c) Highly Elastic
(d) Unit Elastic

Ans :

(b) Inelastic
Demand is inelastic when consumers cannot delay or avoid purchasing a product despite price changes. Woollen clothes are a necessity in winter, so their demand does not significantly decrease with price fluctuations. In contrast, a car is a luxury good, and its demand can be postponed.

(xiv) Study the relationship in the first pair of words and complete the second pair.
1. Revenue earned by the government through railway fares : Commercial revenue
2. Revenue earned through Special Assessment : _____
(a) Direct tax
(b) Indirect tax
(c) Administrative
(d) Commercial

Ans :

(c) Administrative
Commercial revenue includes earnings from services like railway fares.
Special Assessment is a charge levied by the government on property owners for specific improvements like road construction.
This type of revenue falls under administrative revenue, as it arises from government policies rather than direct taxation.

(xv) Efficiency of labour shows the productive capacity of a labourer, whereas division of labour shows _____ of labour.
(a) Specialization
(b) Utilisation
(c) Quantity
(d) Perishability

Ans :

(a) Specialization

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Efficiency of labour measures how much work a labourer can produce.
Division of labour refers to breaking down tasks into smaller steps where workers specialize in specific roles, improving productivity and expertise.

(xvi) Identify the type of debt raised by the government for organising relief camps during natural disasters.
(a) Productive
(b) Unproductive
(c) Gross
(d) Funded

Ans :

(b) Unproductive
Productive debt is used for projects that generate future revenue (e.g., building roads).
Unproductive debt is used for non-revenue-generating activities, like disaster relief, which helps people but does not directly increase government income.

QUESTION 2.

(i) Explain capital as a factor of production.
(ii) There is a positive correlation between entrepreneurship and economic development. Justify the statement with two suitable reasons.
(iii) What is extension of supply ?
(iv) Identify and explain the type of divison of labour shown in the above image

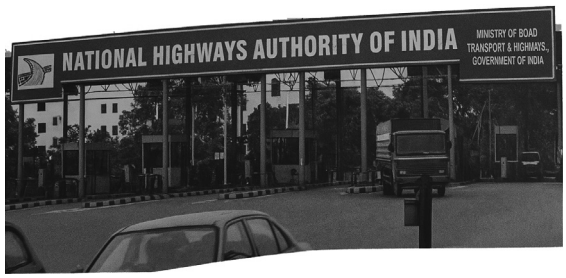


Ans :

(i) Capital refers to the man-made resources used in production, such as machinery, tools, buildings, and raw materials. It helps improve efficiency and productivity by enabling labour to produce more goods and services. Unlike land, capital is created by humans and requires investment. It is a crucial element in industrial growth and economic development.
(ii) (a) Innovation and Job Creation : Entrepreneurs introduce new products and technologies, creating jobs and boosting productivity, leading to economic growth.
(b) Increased National Income : Successful businesses generate higher profits and taxes, contributing to GDP growth and government revenues for public welfare.
(iii) Extension of supply refers to an increase in the quantity supplied due to a rise in the price of the good, while other factors remain constant. It is movement along the supply curve rather than a shift. When prices go up, producers are willing to supply more to maximize profits.
(iv) The images represent "Industrial Division of Labour", where different industries focus on specialized production.
(a) Cotton Textile Industry specializes in fabric production.
(b) Sugarcane Industry focuses on sugar production.
Each industry has specialized workers and machinery to enhance efficiency and output. This form of division of labour helps in large-scale production and cost reduction.

QUESTION 3.

(i) How was Standard of Deferred payment a problem for Barter System of Exchange?
(ii) The following image shows, 'Tolls as a source of revenue for State as well as Central government.' Identify and explain the type of revenue mentioned in the above statement.



(iii) State one difference between Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
(iv) Explain the term revenue expenditure.

Ans :

(i) In a barter system, future payments were difficult because goods lacked a uniform measure of value. For example, if someone borrowed wheat and promised to repay later, disputes could arise about the quality, quantity, or availability of wheat at the time of repayment. This uncertainty made long-term trade and credit transactions inconvenient.

(ii) The type of revenue in the statement is Non-Tax Revenue. Non-tax revenue refers to government income from sources other than taxes, such as tolls, fees, fines, and interest on loans. Tolls collected by the National Highways Authority of India (NHAI) help in road maintenance and infrastructure development without directly taxing citizens.

(iii) Difference between CRR and SLR

CRR (Cash Reserve Ratio)	**SLR (Statutory Liquidity Ratio)**
Banks must keep a percentage of their deposits in cash with the RBI.	Banks must maintain a fixed percentage of their net demand and time liabilities (NDTL) in liquid assets, like gold or government securities.
Regulates liquidity by controlling cash availability in the banking system.	Ensures financial stability by maintaining liquid reserves.

(iv) Revenue expenditure refers to government spending on day-to-day operations and maintenance that does not create long-term assets. It includes salaries, pensions, interest payments, subsidies, and administrative costs. These expenses are essential to ensure the smooth functioning of government activities but do not directly contribute to capital formation.

QUESTION 4.

(i) 'Mobile phone and laptop are examples of composite demand. Justify the statement with a suitable reason.

(ii) Why is capital considered to be 'result of past savings'?

(iii) What is the implication of 'restricted entry of new firms' in a monopoly market?

(iv) A shopkeeper adds brick powder to chilli powder and he colours different vegetables with harmful dyes to make them look bright and fresh. Identify the concept expressed in the above statement and mention the consumer right which has been violated.

Ans :

(i) Composite demand refers to the demand for a good that has multiple uses.
Justification : Mobile phones and laptops are not just used for personal communication or work, but also for entertainment, online transactions, education, and business activities. Since they serve multiple purposes, their demand is categorized as composite demand.

(ii) Capital is created when people or businesses save a portion of their income instead of spending it. These savings are then invested in productive assets, such as factories, technology, and infrastructure. Thus, capital is a result of accumulated savings over time, which is then reinvested for economic growth.

(iii) In a monopoly, there is only one seller in the market, and new firms cannot enter due to legal, financial, or technological barriers.
Implication : Since there is no competition, the monopolist can set high prices, limit supply, and reduce consumer choice. This often leads to higher profits for the monopolist but can result in lower quality and higher prices for consumers.

(iv) Concept : Adulteration and Unfair Trade Practices
Consumer Right Violated : Right to Safety
Adulteration (mixing harmful substances in food) is a deceptive and unsafe practice that can harm consumer health. The Right to Safety ensures that consumers should be protected from hazardous goods and services. The shopkeeper's actions violate this right as they pose a serious health risk.

SECTION-B

(Attempt any four questions form this section)

QUESTION 5.

(i) (a) Define inflation.
(b) Write any three causes of 'Cost Push Inflation'.

(ii) State and explain any five merits of Indirect taxes.

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Ans :

(i) (a) Inflation refers to the sustained rise in the general price level of goods and services over time, reducing the purchasing power of money. It is measured by indices such as the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).

(b) Cost-Push Inflation occurs when the cost of production increases, leading to higher prices. Three major causes are:

1. Increase in Wages : When wages rise due to labor union demands or government policies (e.g., minimum wage laws), production costs increase, leading to higher prices.
2. Increase in Raw Material Costs : The rise in the prices of essential inputs like crude oil, metals, or agricultural products raises the cost of production, forcing firms to increase product prices.
3. Higher Indirect Taxes : If the government increases GST, excise duty, or import duties, businesses shift the burden to consumers by raising prices.

(ii) Five merits of Indirect Taxes

1. Convenience in Payment : Indirect taxes are included in the price of goods and services, making them easy to pay as consumers do not have to make separate tax payments.
2. Universal Applicability : Everyone, rich or poor, contributes to tax revenue when purchasing goods and services, ensuring a broader tax base.
3. Encourages Savings and Investments: Unlike direct taxes, indirect taxes do not reduce income at the source, allowing people to save and invest more.
4. Regulates Consumption of Harmful Goods : The government imposes higher taxes on products like alcohol, tobacco, and luxury items to discourage their excessive consumption.
5. Stable Source of Government Revenue: Indirect taxes ensure a continuous inflow of funds, which is used for public services, infrastructure development, and welfare programs.

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QUESTION 6.

The Following Table represents increase in demand answer the following questions :

Price (₹)	Quantity supplied (kgs)
10	5
10	7

(i) (a) Give a diagrammatic representation based on the above data.

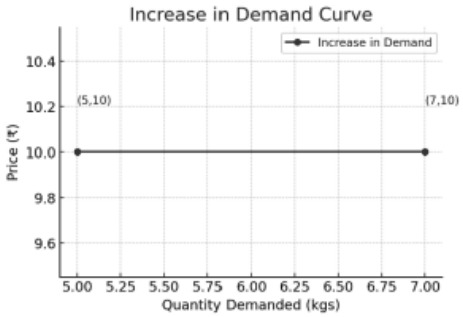
(b) Explain any two factors that affect increase in demand.

(ii) (a) Mention any two features of COPRA 2019.

(b) State and explain any three reasons why consumers are exploited by retailers or producers.

Ans :

(i) (a)



(b) Two Factors Affecting Increase in Demand

1. Increase in Consumer Income : When consumers experience an increase in income, their purchasing power rises, leading to a higher demand for goods and services. This results in a rightward shift in the demand curve.
2. Change in Consumer Preferences : If a product becomes more trendy or desirable, due to advertisements or changes in tastes, more people will demand it, even at the same price, leading to increased demand.

(ii) (a) Two Features of COPRA 2019

1. E-Filing of Complaints : Consumers can file complaints online, making the process more accessible and efficient.
2. Product Liability : Manufacturers and sellers are held accountable for selling defective products or causing harm due to faulty goods.

(b) Three Reasons Why Consumers Are Exploited :

1. Lack of Awareness : Many consumers are unaware of their rights, making them easy targets for unfair trade practices such as overpricing and misleading advertisements.
2. Adulteration and False Claims : Retailers mix inferior or harmful substances (e.g., brick powder in spices) or mislead customers about product quality to maximize profits.
3. Monopoly Practices : In the absence of competition, businesses may charge excessively high prices or supply substandard products, leaving consumers with no alternative choices.

QUESTION 7.

(i) RBI's latest demonetization measure was declared on 19th May 2023. As per RBI's 'clean note' policy, it withdrew all 2,000 notes from circulation. In context of the above statement answer the following questions:
(a) What is demonetization?
(b) State any three objectives of demonetization.

(ii) (a) Identify and define the market structure depicted in the above image.



(b) Give three differences between Perfect Competition Market and Oligopoly market.

Ans :

(i) (a) Demonetization is the process of officially withdrawing a currency unit from circulation, rendering it invalid as a legal tender. It is often implemented to curb black money, control inflation, and promote a cashless economy.

(b) Three Objectives of Demonetization :

1. Eliminating Black Money : Helps in removing unaccounted cash from the economy, discouraging tax evasion.
2. Promoting Digital Transactions : Encourages the use of electronic payments and reduces reliance on cash.
3. Controlling Inflation : By reducing excess liquidity, demonetization helps in stabilizing inflation levels in the economy.

(ii) (a) The image showcases various well-known fast-food brands such as McDonald's, Subway, Taco Bell, and others. This represents a Monopolistic Competition market structure. Monopolistic Competition is a market structure where many firms sell similar but slightly differentiated products. Each firm has some degree of market power, primarily due to branding and product differentiation.

(b) Differences between Perfect Competition Market and Oligopoly market.

Feature	**Perfect Competition Market**	**Oligopoly Market**
Number of Sellers	A large number of small sellers compete in the market.	A few large firms dominate the market.
Product Differenti -ation	Products are homogeneous (identical), with no differentiation.	Products may be homogeneous (steel, cement) or differentiated (automobiles, mobile phones).

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Price Control	Firms have no control over prices; prices are determined by market forces of supply and demand.	Firms have significant control over prices, and strategic pricing (like price wars or collusion) is common.
Barriers to Entry	There are no barriers to entry; new firms can freely enter the market.	There are high barriers to entry due to large capital requirements, patents, and economies of scale.
Examples	Agricultural markets (wheat, rice), stock markets.	Automobile industry (Maruti, Hyundai), telecom sector (Jio, Airtel), and FMCG brands.

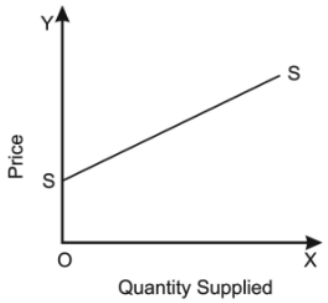
QUESTION 8.

(i) (a) Explain the term supply.
(b) Give a diagrammatic representation of Relatively Elastic Supply.
(ii) Explain any five characteristics of land.

Ans :

(i) (a) Supply refers to the quantity of a good or service that producers are willing and able to offer for sale at different price levels over a given period. It is influenced by factors such as price, production cost, government policies, and market conditions. The Law of Supply states that, "other things remaining constant, an increase in price leads to an increase in quantity supplied, and a decrease in price leads to a decrease in quantity supplied."

(b) Diagrammatic Representation of Relatively Elastic Supply : A Relatively Elastic Supply means that a small change in price leads to a greater proportionate change in quantity supplied. The supply curve in this case is flatter, indicating high responsiveness of quantity supplied to price changes.



(ii) Five Characteristics of Land:
(a) Free Gift of Nature – Land is not man-made; it is provided by nature and is available in a fixed amount.
(b) Immobile – Land is immovable and cannot be transported from one place to another./
(c) Heterogeneous – Different land areas have different qualities, such as fertility, mineral content, and geographical location.
(d) Limited in Supply – The total amount of land on Earth is fixed, and no additional land can be created.
(e) Passive Factor of Production – Unlike labour or capital, land cannot produce anything on its own; it requires human effort and capital investment.

QUESTION 9.

(i) (a) Explain the overdraft facility given by a commercial bank.
(b) State any three differences between Demand deposits and deposits.
(ii) Explain any five determinants affecting demand for goods.

Ans :

(i) (a) An overdraft facility is a credit arrangement where a bank allows its customers to withdraw more money than what is available in their account, up to a specified limit. It is a short-term borrowing facility, usually granted to current account holders. Interest is charged only on the amount overdrawn and for the duration of its use. This facility is commonly used by businesses for meeting urgent financial needs.

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(b) Differences Between Demand Deposits and Fixed Deposits

Feature	Demand Deposits	Fixed Deposits
Definition	Deposits that can be withdrawn anytime without notice	Deposits that are kept for a fixed period and withdrawn only after maturity
Liquidity	Highly liquid, can be withdrawn anytime	Less liquid, cannot be withdrawn before maturity without penalty
Interest Rate	Lower interest rate	Higher interest rate compared to demand deposits

(ii) Five Determinants Affecting Demand for Goods

(a) Price of the Good – If the price of a good increases, demand usually decreases (law of demand), and vice versa.

(b) Income of Consumers – Higher income leads to increased demand for normal goods, while demand for inferior goods may decrease.

(c) Price of Related Goods – The demand for a good is affected by the prices of substitute (e.g., tea and coffee) and complementary goods (e.g., cars and fuel).

(d) Consumer Preferences and Trends – Changes in fashion, advertisement, and social influences affect demand patterns.

(e) Future Expectations – If consumers expect prices to rise in the future, they may buy more now, increasing current demand.

QUESTION 10.

(i) What factors contribute to the lower efficiency of labour in India as compared to the developed nations?

(ii) Read the extract and answer the following questions.

The Central Bank of a country is called 'central' because it is the apex institution of the entire banking system of the country. The Central Bank has a very important role in 'stabilising' the economy. All the other banks in the economy are subject to control from this bank. The Central Bank itself is subject of the overall control of the government.

(a) RBI provides a convenient and economical device for settling interbank claims. Justify the statement with a valid reason.

(b) Why is Central Bank called as a 'Lender of last resort'?

(c) What is bank rate?

Ans :

(i) Factors Contributing to the Lower Efficiency of Labour in India Compared to Developed Nations

1. Lack of Education and Skills – Many workers in India lack formal education and technical skills, reducing their productivity compared to developed nations.
2. Poor Working Conditions – Inadequate infrastructure, outdated machinery, and poor workplace safety affect efficiency.
3. Low Wages and Motivation – Low salaries and lack of incentives reduce worker motivation and productivity.
4. Health Issues and Malnutrition – Poor health and nutrition lower physical and mental capacity, affecting work efficiency.
5. Traditional Work Methods – Dependence on outdated techniques and lack of technological advancement slow down productivity.

(ii) (a) The Reserve Bank of India (RBI) acts as a clearing house for banks, enabling them to settle interbank claims efficiently. Instead of handling large cash transactions, banks can settle their dues through RBI, reducing transaction costs and ensuring smooth financial operations.

(b) The Central Bank is called the "Lender of Last Resort" because when commercial banks face a financial crisis and cannot get funds from any other source, the Central Bank provides them with emergency loans to prevent bank failures and economic instability.

(c) The Bank Rate is the interest rate at which the Central Bank lends money to commercial banks without any collateral. It is a tool used to control the money supply and influence inflation and economic growth.

END

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CHAPTER 1

THE PRODUCTIVE MECHANISM

SUMMARY

1. LAND

In economics, the term "Land" is used broadly. It not only refers to the surface of the earth but also encompasses all natural resources provided as free gifts by nature. It includes all naturally occurring resources whose supply is inherently limited.

1.1 Characteristics

1. Fixed factor of production
2. Permanent in nature
3. Primary factor of production
4. Passive factor of production
5. Immovable in character
6. Indestructible powers of nature
7. Variability in fertility
8. Supply is inelastic

1.2 Productivity of Land

It indicates the ability of a piece of land to produce crops efficiently.

Factors Influencing Productivity:

1. Quality of land
2. Location of the land
3. Land improvements
4. Skilled labour
5. Government policies
6. Irrigation methods
7. Proper land utilization
8. Advanced cultivation methods
9. Land ownership

2. LABOUR

Labour refers to the human effort—physical or mental—used in the production of goods and services. It is an essential factor of production, along with land, capital, and entrepreneurship. Labour can be skilled, semi-skilled, or unskilled and plays a crucial role in economic development.

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2.1 Characteristics of Labour

1. Human Effort – Labour involves physical and mental effort by human beings in production.
2. Perishable – Labour cannot be stored; if a worker does not work today, the lost labour cannot be recovered.
3. Heterogeneous – Labour varies in skill, efficiency, and productivity among individuals.
4. Cannot Be Separated from the Labourer – Unlike land or capital, labour is inseparable from the worker.
5. Has Mobility – Labour can move from one place or industry to another, though with certain limitations.
6. Derived Demand – The demand for labour depends on the demand for the goods and services it produces.
7. Bargaining Power – Labourers can negotiate for better wages and working conditions, often through trade unions.

2.2 Division of Labour

1. Product-Based Division:
   (i) A worker performs the entire production process individually or with family.
   (ii) Specialization in a particular product.
   (iii) Also called simple division of labour.
   (iv) Common in small-scale industries.
   (v) Based on labour-intensive techniques.
2. Process-Based Division:
   (i) Specialization in one part of the process.
   (ii) Known as complex division of labour.
   (iii) Found in large enterprises.
   (iv) Based on capital-intensive techniques.
3. Geographical Division : Also called "Localization of Industries," it refers to specialization in specific regions.

2.3 Efficiency of Labour

It is the capacity of labour to produce quality goods and services within a given time frame and under specific conditions.

2.4 Reasons for Low Efficiency of Indian Labour

1. Unfavourable climatic conditions
2. Lack of education and training
3. Poor wages
4. Absence of labour welfare and social security
5. Low living standards
6. Inefficient management and organization
7. Exploitation of workers

3. CAPITAL

Capital is a key factor of production. It represents wealth used to generate further wealth. It refers to human-made resources, like machinery or factories, used for producing goods and services.

3.1 Characteristics of Capital

1. Passive factor of production
2. Created by humans
3. Forward-looking and future-oriented
4. Subject to depreciation
5. Not indispensable
6. Enhances productivity

3.2 Types of Capital

1. Physical Capital : Refers to tangible assets like machinery and buildings, essential for production.
2. Financial Capital : Includes money and credit used for investments and wealth creation.

3.3 Capital Formation

The process of adding to the economy's stock of capital over time.

3.4 Stages

1. Savings creation
2. Mobilization of savings
3. Investment of savings

3.5 Need for Capital Formation

1. Development of infrastructure
2. Optimum utilization of natural resources
3. Effective use of human capital
4. Technological advancements
5. Accelerated economic growth
6. Agricultural and industrial progress
7. Higher national income
8. Economic expansion
9. Reducing reliance on foreign capital
10. Improving overall welfare

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4. ENTREPRENEUR

Entrepreneurs are individuals who initiate, manage, and succeed in establishing businesses, often taking on financial risks to earn profits. They are innovators who introduce new ideas or replace outdated ones.

4.1 Functions

1. Identifying opportunities
2. Conducting feasibility studies
3. Establishing enterprises
4. Ensuring growth and development
5. Turning ideas into action
6. Managing resources
7. Overseeing the enterprise

4.2 Qualities of Entrepreneurs

1. Passion and Motivation : Passion drives them to take on challenges and innovate.
2. Self-Discipline : They maintain focus and accountability to complete tasks effectively.
3. Risk-Taking Ability : They take calculated risks for growth.
4. Creative Thinking : Their innovation helps them create unique ventures.
5. Persistence : They overcome failures and setbacks to achieve success.

4.3 Role in Economic Development

1. Encourages capital formation
2. Increases per capita income
3. Generates employment opportunities
4. Promotes regional development
5. Enhances living standards
6. Leads to economic self-reliance

MULTIPLE CHOICE QUESTION

1. Which of the following is not an advantage of division of labour?
(a) Reduces cost of production
(b) Expansion of employment
(c) Low quality goods
(d) Inventions

Ans : COMP 2024

(c) Low quality goods
When workers focus on tasks they are most skilled at, they gain expertise and improve efficiency, which in turn leads to higher-quality output.

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2. If a labourer does not work for a day, his one day's work will be lost forever. It implies:
(a) Labour is less mobile
(b) Labour is perishable
(c) Labour is less efficient
(d) Labour is sensitive in nature

Ans : MAIN 2024

(b) Labour is perishable
Labour, in the context of human effort or work, is perishable by nature. Unlike physical goods or commodities that can be stored for future use, labour cannot be preserved or saved for later. Each unit of labour is tied to a specific period of time and is lost if not utilized within that time frame.

3. Labour cannot be separated from the .....
(a) Labourer
(b) Contractor
(c) Entrepreneur
(d) Occupation

Ans : SQP 2023

(a) Labourer
Labour involves the human effort put into productive activities. These efforts are inseparable from the labourer.

4. Land is a ..... factor of production.
(a) Slow
(b) Primary
(c) Secondary
(d) Perishable

Ans : MAIN 2023

(b) Primary
Land is the primary factor of production. Other production factors depend on land, making it essential for all productive activities.

5. Which one of the following is a characteristic of land?
(a) Movable
(b) Destructible
(c) Variable quantity
(d) Primary factor of production

Ans : COMP 2011

(d) Primary factor of production
Land, as a factor of production in economics, has a broad meaning. It includes not just the soil but also all natural resources that are free gifts of nature and inherently fixed in supply.

6. The productivity of land is not affected by:
(a) Proper use of land
(b) Gender of the worker
(c) Government policy
(d) Fertility of land

Ans : MAIN 2011

(b) Gender of the worker
Productivity of land depends on factors such as fertility, proper usage, location, improvements, government policy, irrigation facilities, and availability of capital and labour. Gender does not influence land productivity.

7. Which of the following is a factor affecting productivity of land?
(a) Qualities of land
(b) All of the above
(c) Investment on land
(d) Means of irrigation

Ans : COMP 2015

(b) All of the above
Land productivity is influenced by irrigation methods (e.g., canals or tube wells), the inherent quality of the land, and investments like fertilizers or pesticides. These factors enhance efficiency and output.

8. Land has ___ supply.
(a) Elastic
(b) Continuous
(c) None of the above
(d) Inelastic

Ans : SQP 2019

(d) Inelastic
The supply of land cannot be increased or decreased to meet changes in demand. Its fixed nature makes it inelastic.

9. Land as a factor of production can earn income in the form of:
(a) Wages
(b) Capital
(c) Interest
(d) Rent

Ans : COMP 2011

(d) Rent
Income derived from land is referred to as rent, similar to wages earned by labour and profits earned by entrepreneurs.

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10. Land is a _____ factor of production.
(a) Permanent
(b) Active
(c) Mobile
(d) Temporary

Ans : SQP 2015

(a) Permanent
Land is a permanent factor because its availability and quantity remain unchanged over time.

11. In economics, "not only the surface of the earth but all those free gifts of nature, the supply of which can be regulated," is called _____.
(a) Labour
(b) Land
(c) None of these
(d) Capital

Ans : COMP 2017

(b) Land
Land encompasses all natural resources that contribute to production, from agricultural fields to commercial real estate.

12. As land cannot produce anything by itself, it is called a _____ factor of production.
(a) Mobile
(b) Durable
(c) Passive
(d) Active

Ans : MAIN 2010

(c) Passive
Land requires labour to generate output. Hence, it is considered a passive factor of production.

13. Characteristics of land are:
(a) Passive factor of production, permanent, immovable
(b) Varies in fertility, differs in location, many uses
(c) Free gift of nature, limited in supply, primary supply of production
(d) All of these

Ans : SQP 2019

(d) All of these
Land, as a factor of production, is characterized by its natural origin, immovability, permanence, fertility differences, and versatility in use.

14. Land is a gift of nature given to man free of cost." Which characteristic of land is being highlighted here?
(a) Differs in location
(b) Primary factor of production
(c) Varies in fertility
(d) Free gift of nature

Ans : COMP 2015

(d) Free gift of nature
Land is provided by nature without any cost and is readily available to humans without requiring any expenditure.

15. "Other factors of production can be increased in supply to a great extent. But it is impossible to increase the supply of land." Which characteristic of land is reflected here?
(a) Varies in fertility
(b) Free gift of nature
(c) Primary factor of production
(d) Limited in supply

Ans : SQP 2017

(d) Limited in supply
The supply of land is fixed and cannot be altered like other factors of production. Its availability remains constant.

16. Land is 'fixed' in the senses:
(a) It cannot be moved from place to place
(b) Total supply of land in a country cannot be increased or decreased
(c) Both of these
(d) None of these

Ans : MAIN 2019

(c) Both of these
Land is immovable and has a limited supply. It cannot be transported from one place to another, nor can its total supply be increased or decreased.

17. The capacity of a piece of land to produce a crop," i.e., the average output per unit of land (per acre, per hectare, etc.) is called:
(a) Varies of fertility
(b) Productivity of soil
(c) Productivity of land
(d) None of these

Ans : COMP 2021

(c) Productivity of land
The productivity of land refers to its ability to generate output, such as crops, based on its quality and utilization.

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18. Which of the following factors determines the productivity of land?
(a) Natural factors, improvements of land, proper use of land
(b) Size of holding, organization, state help
(c) Human factors, ownership of land
(d) All of these

Ans : SQP 2000

(d) All of these
Land productivity depends on various elements like its natural quality, irrigation methods, improvements made, and proper management.

19. "If a labourer does not work for a day, his labour for that one day's work will be lost forever." Which characteristic of labour is expressed in this statement?
(a) Labour is perishable
(b) Labour supply varies over time
(c) It is mobile
(d) Labour is an active factor

Ans : COMP 2007

(a) Labour is perishable
Labour cannot be stored, and once lost, it cannot be retrieved or reused. If a worker skips a day of work, the labour from that day is permanently lost.

20. On land, cultivation can be done, factories can be set up, roads and railway tracks can be constructed, buildings can be raised, and so on." Which characteristic of land is being discussed here?
(a) Immovable
(b) Passive factor of production
(c) Land has many uses
(d) Varies in fertility

Ans : MAIN 2005

(c) Land has many uses
Land is a versatile resource that supports diverse uses, including agriculture, industrial, residential, and commercial activities.

21. Identify which one is the type of division of labour among the types listed below.
(a) Simple division of labour
(b) Complex division of labour
(c) Geographical division of labour
(d) All of the above

Ans : MAIN 2010

(d) All of the above
Division of labour involves splitting tasks among specialized groups. It can be categorized into simple, complex, and geographical divisions based on task scope, specialization, and location.

22. _____ is a benefit of division of labour.
(a) Low standard of living
(b) None of the above
(c) Greater efficiency
(d) Low wages

Ans : SQP 2011

(c) Greater efficiency
Division of labour increases efficiency by allowing workers to specialize in tasks, leading to faster and better-quality production processes.

23. In economics, "_____ includes all human efforts done with a view to earn income."
(a) Capital
(b) None of these
(c) Land
(d) Labour

Ans : COMP 2013

(d) Labour
Labour refers to the physical, mental, and intellectual efforts exerted by humans to produce goods or services in exchange for an economic reward.

24. _____ of labour is advantageous to workers as it increases their efficiency, mobility, and saves their time and tools.
(a) Addition
(b) Elasticity
(c) Division
(d) Inelasticity

Ans : MAIN 2010

(c) Division
Division of labour refers to dividing a work process into smaller tasks, with each performed by a specialized individual or group. It optimizes efficiency and enhances productivity.

25. The work of weight lifting, construction work, domestic help, agricultural labour, building work, etc., are examples of _____.
(a) Both of these
(b) Mental labour
(c) Physical labour
(d) None of these

Ans : SQP 2015

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(c) Physical labour
Physical labour involves manual work requiring physical effort, commonly seen in construction, farming, and domestic work.

26. Teacher, doctor, engineer, the principal of a school, etc., are examples of _____.
(a) Both of these
(b) Mental labour
(c) Physical labour
(d) None of these

Ans : MAIN 2017

(b) Mental labour
Mental labour involves intellectual efforts performed by professionals like teachers, doctors, and engineers, contributing to society's economic and social well-being.

27. Capital is a _____ means of production.
(a) Durable
(b) Processed
(c) Produced
(d) Income

Ans : COMP 2011

(c) Produced
Unlike natural resources like land or human efforts like labour, capital is man-made and designed according to human needs. It is artificially produced to support production processes.

28. Capital formation cannot occur unless there is _____.
(a) Money
(b) Investment
(c) Saving
(d) Production

Ans : MAIN 2010

(c) Saving
Saving is the initial step in the process of capital formation. Savings lead to investments, which in turn promote production and economic growth.

29. Labour is the only _____ factor of production.
(a) Passive
(b) Temporary
(c) Immobile
(d) Active

Ans : COMP 2013

(d) Active
Labour is an active factor of production, as it initiates and carries out the production process.

30. If a person sings in a theatre to earn his livelihood, his action would be considered as labour?
(a) Yes
(b) No
(c) Both of these
(d) None of these

Ans : SQP 2014

(a) Yes
Any effort or activity undertaken for an economic reward, such as singing in a theatre for income, is considered labour.

31. Professional labour is :
(a) That mental labour requiring advanced training and education
(b) Labour with special capability to supervise and direct
(c) Both of these
(d) None of these

Ans : SQP 2010

(a) That mental labour requiring advanced training and education
Professional labour involves individuals who have undergone advanced training for specific jobs, such as teachers, doctors, and lawyers.

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32. The concentration of textiles in Gujarat and the sugar industry in UP are good examples of _____.
(a) Horizontal division of labour
(b) International division of labour
(c) Simple division of labour
(d) Geographical division of labour

Ans : MAIN 2019

(d) Geographical division of labour
Geographical division of labour refers to the specialization of industries based on location, like textiles in Gujarat and sugar in Uttar Pradesh.

33. Labour can be classified into:
(a) Professional and Administration labour
(b) Skilled, semi-skilled, and unskilled
(c) Physical and Mental labour
(d) All of these

Ans : COMP 2000

(d) All of these

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Labour is broadly categorized into physical, mental, skilled, semi-skilled, unskilled, professional, and administrative types.

34. Manual or physical labour is :
(a) The work based on the mental strength of humans
(b) The work involving physical effort like carpentry
(c) Both of these
(d) None of these

Ans : MAIN 2005

(b) The work involving physical effort like carpentry
Physical labour involves manual work, such as carpentry or construction, where physical effort is predominant.

35. Chartered accountants, technical experts, company secretaries, belong to:
(a) Semi-skilled labour
(b) Skilled labour
(c) Unskilled labour
(d) None of these

Ans : MAIN 2017

(b) Skilled labour
Skilled labour refers to jobs requiring specialized knowledge, training, and efficiency, such as those performed by accountants and engineers.

36. Capital is a _____ means of production.
(a) Durable
(b) Processed
(c) Produced
(d) Income

Ans : COMP 2018

(c) Produced
Unlike natural resources like land or human efforts like labour, capital is man-made and designed according to human needs. It is artificially produced to support production processes.

37. Capital formation cannot occur unless there is _____.
(a) Money
(b) Investment
(c) Saving
(d) Production

Ans : MAIN 2005

(c) Saving
Saving is the initial step in the process of capital formation. Savings lead to investments, which in turn promote production and economic growth.

38. Which of the following statements expresses a need for capital formation?
(a) Improvement in Technology
(b) Increase in National Income
(c) High rate of economic growth
(d) All of the above

Ans : SQP 2009

(d) All of the above
Capital is wealth in the form of money or assets, viewed as a sign of financial stability for individuals, organizations, or nations. Adding to existing capital is essential for technological advancements, economic growth, and increased national income.

39. In economics, capital is defined here in the sense of _____.
(a) Things
(b) Capital goods
(c) Money
(d) None of these

Ans : MAIN 2010

(b) Capital goods
Capital goods are items currently in use and those capable of fulfilling future needs. Machinery, tools, and other man-made resources that assist in further production are also categorized as capital.

40. Tools and instruments, plants and equipment, machines and trucks, factories, buildings, and stock of goods, etc., are used in production of goods and services; these are called capital goods." Determine whether the statement is true or false.
(a) True
(b) False
(c) Half true, half false
(d) None of these

Ans : COMP 2014

(a) True
From machinery and buildings to transportation and raw materials, all these tools and resources are included in capital goods, aiding production processes.

41. Creation of savings is the _____ stage of capital formation.
(a) Fourth (b) Third
(c) Second (d) First

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Ans : MAIN 2011

(d) First
The stages of capital formation include (1) Creation of savings, (2) Mobilization of savings, and (3) Production of capital goods.

42. _____ is subject to depreciation.
(a) Labour
(b) Land
(c) Capital
(d) Entrepreneur

Ans : SQP 2017

(c) Capital
The value of fixed assets declines over time as they are used in production. This loss of value, known as depreciation, is a feature of capital assets.

43. All wealth cannot be considered as capital; only that part of wealth (consisting of producer goods) is called capital. It is _____.
(a) Capital
(b) Land
(c) Labour
(d) None of these

Ans : COMP 2010

(a) Capital
Wealth that is used in production processes, such as tools, machines, and buildings, qualifies as capital. It represents a subset of overall wealth.

44. Income yielding wealth is _____.
(a) Labour
(b) None of these
(c) Land
(d) Capital

Ans : COMP 2010

(d) Capital
Capital refers to wealth that generates income, such as buildings, machinery, or investments, used to support production.

45. Land is permanent, while capital is _____.
(a) Limited
(b) Unlimited
(c) Perishable
(d) None of these

Ans : MAIN 2014

(c) Perishable
Capital can wear out or depreciate over time, unlike land, which remains indestructible and permanent.

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46. _____ is subject to depreciation.
(a) Labour
(b) Entrepreneur
(c) Land
(d) Capital

Ans : SQP 2010

(d) Capital
Capital assets like machinery and equipment lose value over time due to wear and tear during usage. This reduction in value is referred to as depreciation.

47. Who organizes production, takes important decisions regarding production, hires/purchases factors of production, and bears the risk and uncertainty involved in production?" The task of bearing risks is called enterprise, and the person who bears the risks of business is called _____.
(a) Supervisor
(b) Labourer
(c) Entrepreneur
(d) None of these

Ans : MAIN 2015

(c) Entrepreneur
Entrepreneurs are individuals who create and manage new businesses, taking on most of the risks and enjoying the rewards.

48. Printing machine is an example of _____.
(a) Financial capital
(b) Production capital
(c) Circulating capital
(d) Physical capital

Ans : COMP 2016

(d) Physical capital
Physical capital includes tangible assets like buildings, machinery, and vehicles owned by organizations. A printing machine falls under this category as it supports production activities.

49. An entrepreneur is someone who controls the firm to earn _____.
(a) Growth and development
(b) Profit
(c) Both (a) and (b)
(d) None of the above

Ans : SQP 2013

(b) Profit
The entrepreneur initiates production processes by mobilizing other factors of production, aiming to earn profits while managing and controlling the firm's activities.

50. An entrepreneur is a person who performs dual functions of risk-taking and control." This definition is given by _____.
(a) Whitehead
(b) Adam Smith
(c) F. H. Knight
(d) None of these

Ans : COMP 2014

(c) F. H. Knight
F. H. Knight, in his work on risk and uncertainty, stated that entrepreneurs are individuals who manage risk and uncertainty while governing business ventures.

51. The entrepreneurs are the owners of the business who contribute the capital and bear the risk of uncertainties in business life." Who gave this definition?
(a) Whitehead
(b) F. H. Knight
(c) Adam Smith
(d) None of these

Ans : SQP 2019

(a) Whitehead
Whitehead highlighted the entrepreneurial spirit as involving creativity, courage, and imagination to face risks and uncertainties in business life.

52. In small-scale production, the entrepreneur himself is the _____.
(a) Labour
(b) Owner
(c) Organiser
(d) None of these

Ans : COMP 2021

(c) Organiser
In small-scale businesses, entrepreneurs manage and organize resources directly to achieve production goals efficiently.

53. Which of the below is a function of an entrepreneur?
(a) Decision-making functions
(b) Coordination and supervision
(c) Risk-bearing, distributive functions, innovative function
(d) All of these

Ans : SQP 2023

(d) All of these
Entrepreneurs perform all these roles, including decision-making, risk-bearing, coordination, and innovation, as essential functions.

54. Who bears the risks involved in business?
(a) Government
(b) Labour
(c) None of these
(d) Entrepreneur

Ans : MAIN 2013

(d) Entrepreneur
Entrepreneurs take on business risks to start new ventures and are rewarded with profits for managing these risks.

55. _____ is a factor of production that brings together all the other factors.
(a) Land
(b) Labour
(c) Entrepreneur
(d) Capital

Ans : MAIN 2013

(c) Entrepreneur
Entrepreneurs coordinate and combine land, labour, and capital to initiate and manage production processes effectively.

56. Which of the following is an importance or role of entrepreneurs in economic development?
(a) Increase in output, less dependence on other countries
(b) Mobilization of savings, balanced regional developments
(c) Generation of employment opportunities
(d) All of these

Ans : COMP 2011

(d) All of these
Entrepreneurs mobilize resources like land, labour, and capital to enhance national income, create employment, and drive balanced economic growth.

57. Which of these actions of an entrepreneur will most likely result in creative destruction?
(a) Developing a new product
(b) None of these
(c) Implementing innovative ideas
(d) Adopting a new technology

Ans : COMP 2017

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(a) Developing a new product
Creative destruction refers to introducing new products or ideas that disrupt and replace existing market structures.

58. Which function of an entrepreneur allows him to decide the reward that each factor of production should get?
(a) Distributive function
(b) Innovative function
(c) Decision-making function
(d) Risk-bearing

Ans : SQP 2019

(c) Decision-making function
Entrepreneurs must decide on the equipment to use, product quality, pricing, and variations, as well as handle deficiencies, capital structure, project feasibility, and organizational management.

59. Labourers get _____ for the task they perform whereas an entrepreneur hopes to get _____ for the risk they take in a business.
(a) Wage and profit
(b) Profit and wage
(c) Rent and interest
(d) Wage and interest

Ans : MAIN 2001

(a) Wage and profit
Labourers earn wages for their work, while entrepreneurs bear the risks and earn profits as their reward. Rent is associated with land, and interest pertains to capital.

60. A network of good entrepreneurs will help to generate _____.
(a) Public debt
(b) Employment opportunities
(c) Public expenditure
(d) Expenditure

Ans : COMP 2011

(b) Employment opportunities
Entrepreneurs establish businesses, creating job opportunities and boosting employment levels in the economy.

61. Study the relationship in the first pair of terms and complete the second pair.
(i) Land : A factor of production with fixed supply.
(ii) Labour : A factor of production characterized by _____.
(a) Perfect divisibility
(b) Flexibility of supply
(c) Variability in efficiency
(d) Ownership by individuals

Ans : MAIN 2013

(c) Variability in efficiency
Labour is a factor of production whose efficiency can vary depending on education, skills, working conditions, and motivation. Unlike land, its productivity is not fixed and is subject to improvement or decline.

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62. Study the relationship in the first pair of words and complete the second pair.
(i) Physical Capital : Tangible assets used in production.
(ii) Financial Capital : _____ assets used for production.
(a) Human
(b) Intangible
(c) Durable
(d) Specialized

Ans : SQP 2014

(b) Intangible
Financial capital refers to monetary resources (like cash, stocks, and bonds) used to facilitate production. Unlike physical capital, which includes machinery and buildings, financial capital is intangible.

63. Study the relationship in the first pair of terms and complete the second pair.
(i) Productivity of Land : Depends on irrigation facilities.
(ii) Efficiency of Labour : Depends on _____.
(a) Climate conditions
(b) Industrial development
(c) Educational level
(d) Technological availability

Ans : COMP 2019

(c) Educational level
Efficiency of labour refers to the productivity of workers, which is significantly influenced by their education, training, and skills. Better education enhances their ability to perform complex tasks effectively.

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64. Study the relationship in the first pair of terms and complete the second pair.
(i) Division of Labour : Specialization of tasks.
(ii) Capital Formation : _____ accumulation of assets.
(a) Productive
(b) Gradual
(c) Intentional
(d) Systematic

Ans : SQP 2014

(d) Systematic
Capital formation is a deliberate and systematic process of accumulating physical and financial capital to boost production. It involves saving, investment, and reinvestment in assets.

65. Study the relationship in the first pair of terms and complete the second pair.
(i) Entrepreneur : Innovates for economic development.
(ii) Labour : _____ for economic production.
(a) Invests resources
(b) Organizes factors
(c) Contributes effort
(d) Owns land

Ans : MAIN 2016

(c) Contributes effort
Labour provides physical and mental effort necessary for economic production. Unlike entrepreneurs, labourers do not organize resources but contribute their work to the production process.

66. **Assertion (A) :** Productivity of land depends on natural factors like climate, fertility, and location.
Reason (R) : Land is a passive factor of production and cannot produce anything on its own.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2024

(b) Both A and R are true, and R is not the correct explanation of A.
Productivity of land does depend on natural factors, and it is true that land is a passive factor. However, the assertion is about productivity, and the reason does not directly explain how natural factors affect it.

67. **Assertion (A) :** Division of labor increases efficiency and productivity in the production process.
Reason (R) : Division of labor reduces the burden on individual workers, leading to job specialization.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2023

(a) Both A and R are true, and R is the correct explanation of A.
Division of labor reduces the burden on workers and allows for specialization, which directly increases efficiency and productivity in the production process.

68. **Assertion (A) :** Physical capital includes machinery, buildings, and tools used in production.
Reason (R) : Financial capital refers to money that is invested to purchase physical capital.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2020

(a) Both A and R are true, and R is the correct explanation of A.
Physical capital indeed includes machinery, buildings, and tools, and financial capital is used to invest in physical capital, making the reason an accurate explanation.

69. **Assertion (A) :** Capital formation is necessary for economic growth in a country.
Reason (R) : High savings and investments in an economy directly contribute to capital formation.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2011

(a) Both A and R are true, and R is the correct explanation of A.

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Economic growth relies on capital formation, which happens when savings and investments increase. Thus, the reason accurately explains the assertion.

70. **Assertion (A) :** Entrepreneurs play a key role in resource allocation in an economy.
Reason (R) : Entrepreneurs only provide financial capital for production activities.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2014

(c) A is true, but R is false.
Entrepreneurs do play a key role in resource allocation, but they do much more than just provide financial capital. They innovate, organize production, and take risks, making the reason incorrect.

71. Land refers to natural resources used in production, such as soil, minerals, and water."
Based on the given statement, identify the characteristic of land as a factor of production.
(a) Land is man-made.
(b) Land has infinite supply.
(c) Land is a passive factor of production.
(d) Land can be improved only through technology.

Ans : COMP 2017

(c) Land is a passive factor of production.
Land is considered a passive factor of production because it requires the intervention of active factors, such as labor and capital, to produce goods and services.

72. Division of labor improves efficiency by breaking down tasks into smaller, specialized units."
Based on the given statement, identify the type of division of labor.
(a) Simple division of labor.
(b) Complex division of labor.
(c) Occupational division of labor.
(d) Territorial division of labor.

Ans : MAIN 2019

(b) Complex division of labor.
Complex division of labor involves breaking down tasks into smaller, specialized roles, allowing workers to focus on specific tasks, thereby improving efficiency.

73. Physical capital includes machinery, buildings, and tools used in production."
Based on the given statement, identify the type of capital.
(a) Fixed capital.
(b) Working capital.
(c) Financial capital.
(d) Social capital.

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Ans : COMP 2021

(a) Fixed capital.
Physical capital, such as machinery and tools, is categorized as fixed capital because it is used in production over a long period without being consumed immediately.

74. The process of accumulating savings and converting them into investments is essential for economic growth."
Based on the given statement, identify the concept described.
(a) Capital formation.
(b) Capital consumption.
(c) Financial capital.
(d) Human capital.

Ans : MAIN 2000

(a) Capital formation.
Capital formation refers to the process of saving and investing in assets such as machinery and infrastructure to boost production and economic growth.

75. "Entrepreneurs organize resources and take risks to start new businesses."
Based on the given statement, identify the function of an entrepreneur.
(a) Risk-bearing.
(b) Labor management.
(c) Resource consumption.
(d) Fixed capital formation.

Ans : COMP 2005

(a) Risk-bearing.
Entrepreneurs take calculated risks to bring new ideas to the market, organize resources, and drive economic growth, fulfilling their role as risk-bearers.

76. Mr. Arjun, while teaching about factors of production, explained that 'the efforts of workers organized into specialized tasks to increase efficiency and productivity in a factory' are referred to as which of the following concepts?
(a) Labour productivity
(b) Division of labour
(c) Efficiency of labour
(d) Capital formation

Ans : SQP 2010

(b) Division of labour
Division of labour involves assigning specific tasks to workers based on specialization to improve efficiency and productivity.

77. Ms. Rina mentioned that the process of 'saving and investing resources over time to create more assets and wealth in the economy' is called what?
(a) Physical capital
(b) Financial capital
(c) Capital formation
(d) Entrepreneurship

Ans : COMP 2014

(c) Capital formation
Capital formation refers to the accumulation of physical and financial resources through savings and investments to increase the productive capacity of the economy.

78. During an economics lecture, it was stated that 'the natural resources used in production are finite and immovable, but their productivity can be improved through certain measures.' What is this factor of production known as?
(a) Labour (b) Land
(c) Capital (d) Entrepreneur

Ans : MAIN 2017

(b) Land
Land as a factor of production includes natural resources, and its productivity can be enhanced by factors such as irrigation, fertilizers, and advanced techniques.

79. The productivity of land can be influenced by which of the following factors?
(a) Fertility and climate conditions
(b) Availability of labour
(c) Technological advancements
(d) All of the above

Ans : COMP 2012

(d) All of the above
Factors like natural fertility, favorable climate, and technological improvements significantly affect the productivity of land.

80. **Statement 1 :** Productivity of land refers to its ability to produce more output per unit of land.
Statement 2 : Fertility, irrigation facilities, and proper cultivation techniques are key factors affecting the productivity of land.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2014

(c) Both Statements 1 and 2 are true.
Productivity of land measures output per unit area, and its efficiency is impacted by factors like fertility, irrigation, and cultivation methods.

81. **Statement 1 :** Division of labour involves breaking down a production process into smaller tasks performed by different individuals.
Statement 2 : Division of labour reduces efficiency and productivity due to repetitive tasks.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2016

(a) Statement 1 is true and Statement 2 is false.
Division of labour increases efficiency by allowing specialization in tasks, although it may cause monotony for workers.

82. **Statement 1 :** Capital formation is the process of increasing the stock of physical and financial capital in an economy.
Statement 2 : High savings and investments are not necessary for the process of capital formation.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2012

(a) Statement 1 is true and Statement 2 is false.
Capital formation depends on savings and investment to build a strong economic base, making the second statement incorrect.

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83. Mr. Sharma highlighted that 'an individual who combines all other factors of production, takes risks, and drives economic activity to generate profit' is referred to as what?
(a) Manager
(b) Entrepreneur
(c) Labourer
(d) Capitalist

Ans : SQP 2010

(b) Entrepreneur
An entrepreneur organizes land, labour, and capital, takes risks, and is crucial for economic development through innovation and production.

84. Does the fertility of land exemplify its characteristic of being a primary factor of production? Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2013

(i) True
Fertility is a characteristic of land, which makes it a primary factor of production as it directly contributes to agricultural output and economic productivity.

85. Physical capital, such as machinery, represents financial capital." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2014

(i) False
Physical capital refers to tangible assets like machinery and tools, while financial capital refers to monetary resources used to acquire such assets. They are distinct types of capital.

86. Division of labour increases specialization and efficiency in production." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2016

(i) True
Division of labour allows workers to focus on specific tasks, improving expertise and productivity, which enhances overall efficiency in production.

87. Capital formation refers to the accumulation of skilled labour in an economy." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2013

(ii) False
Capital formation refers to the accumulation of physical and financial capital, not labour. It involves savings, investments, and the creation of productive assets.

88. Does an entrepreneur's role in innovation exemplify their function in economic development? Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2015

(i) True
Entrepreneurs drive innovation, which fosters new technologies and business models, contributing significantly to economic development.

89. Identify the type of factors of production being highlighted by these visuals.

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(a) Capital and Labour
(b) Land and Entrepreneur
(c) Capital and Land
(d) Labour and Entrepreneur

Ans : COMP 2013

(i) Capital and Labour
The bank represents Capital, which is financial resources used for production activities. The construction workers depict Labour, which refers to the human effort applied in production. Together, these visuals highlight the interdependence of capital and labour in productive mechanisms.

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90. Identify the type of factors of production being highlighted by these visuals.



(a) Capital and Entrepreneur
(b) Labour and Capital
(c) Land and Labour
(d) Land and Entrepreneur

Ans : MAIN 2016

(a) Capital and Entrepreneur
The automated assembly line represents Capital, specifically physical capital in the form of machines used for production. The businessperson launching a product illustrates Entrepreneurship, which involves organizing resources and taking risks for innovation and economic growth. These visuals emphasize the role of technology and leadership in production.

91. Identify the type of factors of production being highlighted by these visuals.



(a) Land and Entrepreneur
(b) Labour and Capital
(c) Entrepreneur and Capital
(d) Land and Labour

Ans : COMP 2011

(a) Land and Entrepreneur
The farmer harvesting crops illustrates Land, as it is a natural resource essential for agricultural production. The entrepreneur presenting a business plan demonstrates Entrepreneurship, which involves organizing resources, making decisions, and taking risks for economic development. These visuals showcase the relationship between natural resources and innovative leadership in production.

92. Identify the type of factors of production being highlighted by these visuals.



(a) Land and Labour
(b) Capital and Entrepreneur
(c) Labour and Entrepreneur
(d) Land and Capital

Ans : MAIN 2017

(c) Labour and Entrepreneur
The farm with workers highlights Labour, which represents the human effort in production. The meeting room with a startup team demonstrates Entrepreneurship, as they organize resources and develop innovative solutions to grow the economy. Together, these visuals illustrate the combination of human effort and creativity in productive mechanisms.

93. What is a key characteristic of land as a factor of production?
(a) It is man-made
(b) It is mobile
(c) It is limited in supply
(d) It is not subject to ownership

Ans : SQP 2019

(c) It is limited in supply
Land is a natural resource and is limited in quantity; its supply cannot be increased artificially.

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94. What does the productivity of land mean?
(a) Output per unit of labour used on land
(b) Output per unit of capital used on land
(c) Output per unit of land area
(d) Output per entrepreneur employed

Ans : COMP 2021

(c) Output per unit of land area
Productivity of land refers to the amount of goods produced on a given area of land.

95. Which factor affects the productivity of land the most?
(a) Fertility of soil
(b) Climate conditions
(c) Method of cultivation
(d) All of the above

Ans : MAIN 2000

(d) All of the above
The fertility of soil, climatic conditions, and cultivation methods all influence land productivity.

96. What is a key characteristic of labour?
(a) It is passive in nature
(b) It is heterogeneous
(c) It does not perish
(d) It is immobile

Ans : SQP 2004

(b) It is heterogeneous
Labour differs in skill, efficiency, and capability, making it heterogeneous.

97. What is the primary advantage of the division of labour?
(a) Increased unemployment
(b) Increased production efficiency
(c) Reduced skill development
(d) Reduced worker specialization

Ans : MAIN 2006

(b) Increased production efficiency
Division of labour allows workers to specialize, increasing efficiency and productivity.

98. Which of the following is a type of division of labour?
(a) By process
(b) By product
(c) By geography
(d) All of the above

Ans : COMP 2011

(d) All of the above
Division of labour can occur by process, product, or geography, depending on specialization needs.

99. What does efficiency of labour depend on?
(a) Level of education
(b) Health of workers
(c) Working conditions
(d) All of the above

Ans : SQP 2013

(d) All of the above
Education, health, and conditions significantly influence labour efficiency.

100. What is a reason for low efficiency of Indian labour?
(a) Poor education system
(b) Lack of modern technology
(c) Poor health facilities
(d) All of the above

Ans : MAIN 2016

(d) All of the above
Multiple factors contribute to the low efficiency of Indian labour, including education, technology, and health.

101. What is a characteristic of capital?
(a) It is a natural resource
(b) It is man-made
(c) It is unlimited in supply
(d) It does not require maintenance

Ans : COMP 2009

(b) It is man-made
Capital is a human-made resource used for production.

102. Which is an example of financial capital?
(a) Tools
(b) Machines
(c) Money
(d) Raw materials

Ans : MAIN 2011

(c) Money
Financial capital includes monetary resources like money.

103. What is the process of capital formation?
(a) Consumption of goods
(b) Savings, investment, and production
(c) Loan repayment
(d) Resource depletion

Ans : SQP 2017

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(b) Savings, investment, and production
Capital formation involves saving and investing in production.

104. Why is capital formation necessary?
(a) To increase productivity
(b) To encourage investment
(c) To drive economic growth
(d) All of the above

Ans : COMP 2019

(d) All of the above
Capital formation boosts productivity, investment, and economic growth.

105. What is the main function of an entrepreneur?
(a) Organizing resources
(b) Bearing risks
(c) Innovation
(d) All of the above

Ans : MAIN 2011

(d) All of the above
Entrepreneurs organize, innovate, and take risks in production.

106. What role do entrepreneurs play in economic development?
(a) Driving innovation
(b) Generating employment
(c) Enhancing production
(d) All of the above

Ans : SQP 2015

(d) All of the above
Entrepreneurs drive innovation, create jobs, and increase production, contributing to economic growth.

107. What does land include in economic terms?
(a) Soil only
(b) Natural resources like minerals, water, and forests
(c) Buildings and factories
(d) Machinery

Ans : COMP 2017

(b) Natural resources like minerals, water, and forests
Land encompasses all natural resources used in production.

108. Which of the following does NOT directly affect the productivity of land?
(a) Climate
(b) Fertilizer use
(c) Size of the labour force
(d) Irrigation

Ans : MAIN 2000

(c) Size of the labour force
Land productivity depends on natural and technological factors, not directly on labour force size.

109. Which of the following is NOT a type of capital?
(a) Fixed capital
(b) Working capital
(c) Natural capital
(d) Financial capital

Ans : MAIN 2019

(c) Natural capital
Natural capital is not considered a traditional type of capital in economics.

110. What is the difference between physical and financial capital?
(a) Physical capital is money, while financial capital is assets
(b) Physical capital includes tangible tools, while financial capital refers to funds
(c) Physical capital cannot be transferred, but financial capital can
(d) Both are intangible forms of capital

Ans : SQP 2005

(b) Physical capital includes tangible tools, while financial capital refers to funds
Physical capital comprises machinery and tools, while financial capital includes monetary resources.

111. What is a key requirement for capital formation?
(a) Consumption
(b) Savings
(c) Luxury spending
(d) Resource depletion

Ans : SQP 2015

(b) Savings
Savings provide the foundation for investment and capital formation.

112. Why is land considered a passive factor of production?
(a) It is abundant
(b) It cannot produce on its own
(c) It is mobile
(d) It requires no maintenance

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Ans : MAIN 2018

(b) It cannot produce on its own
Land needs active factors like labour and capital to become productive.

113. What does the term "productive mechanism" refer to?
(a) Machines used in production
(b) The combination of factors of production
(c) Capital only
(d) Labour only

Ans : SQP 2011

(b) The combination of factors of production
Productive mechanism includes all resources and processes used for production.

114. What does the term "land productivity" signify in economic terms?
(a) The use of fertilizers on land
(b) The ability of land to generate economic output
(c) The use of natural resources in production
(d) The cost of land ownership

Ans : COMP 2019

(b) The ability of land to generate economic output
Productivity of land refers to how effectively land can produce goods and services.

115. What is the primary feature of labour mobility?
(a) It moves with ease
(b) It is static
(c) It depends on wages and conditions
(d) It does not influence production

Ans : COMP 2013

(c) It depends on wages and conditions
Labour mobility is influenced by wages, conditions, and opportunities.

116. Which of these is a characteristic of labour as a factor of production?
(a) Perishable in nature
(b) Unlimited in supply
(c) Unchanging across regions
(d) Independent of wages

Ans : COMP 2007

(a) Perishable in nature
Labour perishes if not utilized, as its availability is time-sensitive.

117. What does "division of labour by product" mean?
(a) Specialization based on geographical area
(b) Workers producing a specific type of product
(c) Allocation of labour within a single production process
(d) Division of tasks based on worker skill levels

Ans : MAIN 2010

(b) Workers producing a specific type of product
Division of labour by product involves assigning workers to produce distinct goods.

118. What does labour efficiency primarily depend on?
(a) The type of job
(b) Working hours
(c) Skill and training of workers
(d) The size of the workforce

Ans : COMP 2013

(c) Skill and training of workers
Skilled and well-trained workers are more efficient in performing tasks.

119. Which is NOT an advantage of the division of labour?
(a) Specialization
(b) Faster production
(c) Enhanced worker skills
(d) Decreased worker satisfaction

Ans : MAIN 2015

(d) Decreased worker satisfaction
Division of labour usually enhances productivity and worker satisfaction through specialization.

120. What is the primary purpose of capital formation?
(a) To reduce unemployment
(b) To increase consumer goods
(c) To enhance productive capacity
(d) To maintain wage levels

Ans : COMP 2018

(c) To enhance productive capacity
Capital formation focuses on increasing the production capacity of an economy.

121. Which of these is a form of indirect division of labour?
(a) Producing one type of good
(b) Specialization based on production stages
(c) Workers assigned to a single factory
(d) Allocation of tasks to a single individual

Ans : SQP 2012

(b) Specialization based on production stages
Indirect division of labour involves specialization across different production stages.

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122. Which is an example of capital in production?
(a) Agricultural land
(b) Machinery in a factory
(c) Rivers used for irrigation
(d) Raw minerals

Ans : SQP 2011

(b) Machinery in a factory
Machinery is a man-made resource and represents physical capital.

123. What distinguishes an entrepreneur from other factors of production?
(a) Ownership of resources
(b) Risk-taking and innovation
(c) Dependency on labour
(d) Contribution to productivity

Ans : SQP 2016

(b) Risk-taking and innovation
Entrepreneurs bear risks and introduce innovations to drive economic progress.

124. Which of the following is a characteristic of capital as a factor of production?
(a) Limited by nature
(b) Cannot depreciate
(c) Result of human effort
(d) Available without cost

Ans : MAIN 2010

Capital is a human-made resource, requiring investment and effort.

125. What is a key factor for successful capital formation?
(a) Rising consumption levels
(b) Increase in the labour force
(c) Savings and investments
(d) Depletion of natural resources

Ans : COMP 2016

(c) Savings and investments
Without sufficient savings and investments, capital formation cannot take place.

126. What is a distinguishing feature of labour compared to other factors of production?
(a) It is intangible
(b) It is driven by human effort
(c) It does not contribute to production
(d) It is independent of wages

Ans : MAIN 2010

(b) It is driven by human effort
Labour is uniquely characterized by the involvement of human physical and mental effort.

127. What is a limitation of land as a factor of production?
(a) It cannot generate output
(b) It is limited in supply
(c) It requires no improvement
(d) It is not affected by external factors

Ans : COMP 2014

(b) It is limited in supply
Land is finite and cannot be artificially created.

128. What is an example of financial capital?
(a) Equipment
(b) Bank deposits
(c) Agricultural tools
(d) Raw materials

Ans : MAIN 2016

(b) Bank deposits
Financial capital consists of monetary resources like savings and bank deposits.

129. Why is the entrepreneur referred to as an innovator?
(a) They create new production techniques
(b) They manage natural resources
(c) They supply financial capital
(d) They increase land productivity

Ans : SQP 2010

(a) They create new production techniques
Entrepreneurs innovate by introducing new methods, products, and processes.

130. Which of the following best defines capital formation?
(a) Use of natural resources
(b) Conversion of savings into investments
(c) Allocation of land resources
(d) Reduction of economic risks

Ans : COMP 2013

(b) Conversion of savings into investments
Capital formation occurs when saved funds are invested in production.

131. What is NOT a function of an entrepreneur?
(a) Organizing production
(b) Taking risks
(c) Financing other businesses
(d) Introducing innovations

Ans : SQP 2016

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(c) Financing other businesses
Entrepreneurs focus on managing and innovating within their ventures.

132. Which is an example of a durable form of physical capital?
(a) Office buildings
(b) Raw materials
(c) Wages
(d) Water supply

Ans : COMP 2011

(a) Office buildings
Durable physical capital includes long-lasting tangible assets like buildings and machinery.

133. What is the key feature of land as a factor of production?
(a) It is renewable
(b) It is stationary and immobile
(c) It is always man-made
(d) It is unlimited in quantity

Ans : SQP 2013

(b) It is stationary and immobile
Land is a natural resource that cannot be moved from one place to another.

134. Which of the following is an example of a non-renewable resource under land?
(a) Forests
(b) Rivers
(c) Minerals
(d) Air

Ans : MAIN 2015

(c) Minerals
Minerals are finite and cannot be replenished once extracted, making them non-renewable.

135. What does "intensive cultivation" mean in terms of land productivity?
(a) Using large areas of land with fewer inputs
(b) Using maximum inputs on a small plot of land
(c) Allowing land to remain unused
(d) Farming only for subsistence

Ans : SQP 2016

(b) Using maximum inputs on a small plot of land
Intensive cultivation involves maximizing the productivity of limited land through high input usage.

136. What is a disadvantage of the division of labour?
(a) Workers develop expertise
(b) Increase in production time
(c) Work becomes monotonous
(d) Decrease in specialization

Ans : COMP 2000

(c) Work becomes monotonous
Division of labour can make tasks repetitive and dull for workers.

137. What does horizontal division of labour refer to?
(a) Workers specialize in different stages of the same process
(b) Tasks are divided among workers of equal skill levels
(c) Work is divided by rank or hierarchy
(d) All workers focus on a single product

Ans : MAIN 2001

(b) Tasks are divided among workers of equal skill levels
Horizontal division of labour assigns tasks to workers of similar expertise or roles.

138. Which of the following increases the efficiency of labour?
(a) Long working hours
(b) Education and training
(c) Increased physical work only
(d) Reducing job opportunities

Ans : SQP 2011

(b) Education and training
Skilled and educated workers are more efficient in performing their duties.

139. Which of these is NOT a type of physical capital?
(a) Machines
(b) Factories
(c) Money in the bank
(d) Equipment

Ans : COMP 2014

(c) Money in the bank
Money in the bank is financial capital, not physical capital.

140. What is the primary function of capital in production?
(a) It directly supplies raw materials
(b) It facilitates the production process
(c) It is used for personal consumption
(d) It replaces labour entirely

Ans : MAIN 2016

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(b) It facilitates the production process
Capital enables and supports the production process through tools, machines, and investments.

141. What does working capital include?
(a) Machinery and tools
(b) Cash and short-term assets
(c) Land and buildings
(d) Skilled labour

Ans : SQP 2000

(b) Cash and short-term assets
Working capital includes liquid resources required for daily operations.

142. What is the first step in the process of capital formation?
(a) Consumption of goods
(b) Increase in investment
(c) Increase in savings
(d) Use of resources

Ans : COMP 2002

(c) Increase in savings
Savings are essential to enable investment, which is the foundation of capital formation.

143. Which is NOT a characteristic of capital?
(a) It is man-made
(b) It is a renewable resource
(c) It is used for further production
(d) It can depreciate over time

Ans : MAIN 2005

(b) It is a renewable resource
Capital is man-made and not naturally renewable like land.

144. Why is an entrepreneur referred to as a "coordinator"?
(a) They provide technical skills
(b) They combine other factors of production
(c) They directly increase land productivity
(d) They work as labourers

Ans : SQP 2010

(b) They combine other factors of production
Entrepreneurs organize land, labour, and capital to achieve efficient production.

145. What is one of the primary roles of entrepreneurs in economic development?
(a) Increase in consumer spending
(b) Risk reduction through innovation
(c) Reduction of market competition
(d) Direct allocation of land

Ans : COMP 2011

(b) Risk reduction through innovation
Entrepreneurs innovate to manage risks and improve productivity.

146. Which type of division of labour is common in mass production?
(a) Vertical division of labour
(b) Division by product
(c) Division by geography
(d) Division by process

Ans : MAIN 2017

(d) Division by process
Mass production involves breaking down tasks into processes, allowing specialization.

147. Which of the following is NOT a factor affecting the productivity of labour?
(a) Education
(b) Climate
(c) Motivation
(d) Health

Ans : SQP 2009

(b) Climate
While climate affects land productivity, labour productivity depends on education, health, and motivation.

148. What is an example of fixed capital?
(a) Wages
(b) Raw materials
(c) Machinery
(d) Cash reserves

Ans : COMP 2011

(c) Machinery
Fixed capital includes long-term assets like machinery and equipment used in production.

149. What distinguishes "entrepreneurship" from "labour"?
(a) Entrepreneurs work only in factories
(b) Entrepreneurs organize and innovate
(c) Entrepreneurs perform physical tasks
(d) Entrepreneurs are not part of production

Ans : SQP 2016

(b) Entrepreneurs organize and innovate
Entrepreneurs take risks, organize resources, and innovate to enhance production.

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150. What is the most critical factor for ensuring high efficiency of labour in an economy?
(a) Higher wages
(b) Advanced tools
(c) Education and training
(d) Strict working hours

Ans : MAIN 2000

(c) Education and training
Skilled and well-educated workers significantly contribute to efficient production.

151. Which factor influences the supply of capital the most?
(a) Population growth
(b) Government policies on savings and investment
(c) Availability of labour
(d) Fertility of land

Ans : SQP 2004

(b) Government policies on savings and investment
Policies encouraging savings and investments increase the availability of capital.

152. What is an advantage of land as a factor of production?
(a) It is easily transportable
(b) It is always abundant
(c) It is essential for primary activities
(d) It is man-made

Ans : COMP 2010

(c) It is essential for primary activities
Land is vital for agriculture, mining, and other primary sector activities.

TWO MARKS QUESTIONS

153. State whether the following statement is true or false. Give reason for your answer.
The capital like printing machines, tools when used in process of production are subject to depreciation.

Ans : MAIN 2024

Depreciation refers to the gradual reduction in the value of capital assets, such as printing machines and tools, over their useful lifespan due to wear and tear. It is recorded as an expense on the income statement to accurately represent the cost of utilizing these assets in the production process over time.

154. What is the meaning of productivity of land?

Ans : COMP 2023

Land productivity measures the sustainable use of land by evaluating the relationship between land quality in general productive terms and the output obtained from it.

155. What do you mean by efficiency of labour?

Ans : SQP 2023

Labour efficiency refers to the ability to produce a specified quantity and quality of goods and services within a given period under particular conditions.

156. How does land differ from other factors of production with respect to its supply?

Ans : MAIN 2017,2015

(i) Free Gift of Nature : Land is a natural resource requiring no human effort to produce. It existed long before human evolution and is not a result of labor, unlike other factors of production.
(ii) Primary Factor of Production : Land serves as the foundation for all production activities. It provides raw materials for industries and supports agriculture by growing crops.
(iii) Perfectly Inelastic Supply : The total supply of land remains constant and cannot be increased or decreased, making it perfectly inelastic.

157. How is labour defined in economics?

Ans : COMP 2023

Labour refers to the effort applied to produce goods or services. It encompasses all forms of human effort, including physical exertion, mental activity, intellectual work, etc., performed in exchange for an economic reward.

158. What does the productivity of land mean?

Ans : SQP 2020

Productivity of land measures the amount of land required to meet food demands. It highlights the pressure on land while ensuring its capacity to provide essential environmental services, such as crop yields per unit of land or tons of wheat per hectare. The quality of land is a crucial natural resource component that significantly influences agricultural productivity.

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159. What is land in Economics?

Ans : MAIN 2019

Land in Economics refers to a key factor of production that includes all natural resources used for generating goods and services.

160. State two factors that affect the productivity of land.

Ans : SQP 2019,2016

(i) Qualities of Land : The productivity of land depends on its natural features. Flat and level land is more productive than undulating land. Similarly, hilly areas outperform deserts in productivity. Soil quality and climate are critical factors.
(ii) Means of Irrigation : The availability of efficient irrigation systems, such as canals and tube wells, significantly enhances productivity compared to relying solely on rainfall.

161. How is land different from labour?

Ans : COMP 2018

(i) Land is a passive production factor, while labour is active.
(ii) Land is immobile, while labour can move freely.
(iii) The supply of land is fixed, whereas labour supply can change.
(iv) Land provides raw materials, whereas labour contributes effort for production.

162. Briefly explain two methods that increase land productivity.

Ans : SQP 2014

(i) Proper Use of Land : utilized. For instance, black soil is ideal for cotton cultivation but unsuitable for rice. Effective usage of land resources is crucial as they are limited.
(ii) Improved Cultivation Methods : Productivity can be enhanced by using modern methods such as fertilizers, high-quality seeds, and mechanized equipment like ploughs.

163. Land is heterogeneous in nature. Explain.

Ans : COMP 2014

Land is considered heterogeneous because no two pieces of land are identical. Variations in factors like fertility, topography, and climatic conditions make each piece of land unique, affecting its productivity and use.

164. Explain in brief the characteristics of land with respect to its supply and use.

Ans : MAIN 2012

(i) Land as a Primary Factor of Production : Land is essential for all production activities. It provides raw materials for industries and serves as the base for agricultural activities.
(ii) Free Gift of Nature : Land is a natural resource that requires no human effort to produce, unlike other factors of production, which need to be acquired through labor.

165. Improved technology affects the productivity of land. Explain this statement with the help of suitable examples.

Ans : COMP 2011

Improved technology significantly enhances land productivity. For example, advanced agricultural techniques have made infertile lands suitable for cultivation. Modern biotechnology now enables crop cultivation even in deserts, increasing efficiency and output.

166. How is labour different from other factors of production?

Ans : SQP 2020

Land and capital can be separated from their owner, but labour cannot be detached from the labourer. The worker's physical presence is essential for the utilization of their labour. For instance, a teacher must be present in the classroom to teach, as their skills cannot be separated from them.

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167. Mention two ways by which a worker benefits from the division of labour.

Ans : COMP 2019

(i) Skill Enhancement : The worker specializes in a specific task, which helps improve their skills and expertise.
(ii) Increased Efficiency : Specialization allows the worker to perform tasks more quickly and accurately, leading to higher productivity.

168. Give two reasons as to why the division of labour is an advantage to the producer?

Ans : MAIN 2018,2016

(i) Improved Efficiency of Labour : Division

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of labour enhances workers' efficiency by assigning tasks that align with their skills, experience, and aptitude. Repetition of the same task also leads to greater expertise and speed in performance.

(ii) Better Quality of Work : By focusing on specific tasks, workers produce higher-quality output. Modern machines and equipment further improve the quality, which enhances the reputation and profitability of the producer.

169. Define the term labour as a factor of production.

Ans : MAIN 2018

Labour refers to the human effort, both physical and mental, used in the production of goods and services. It includes the work done by people to create products or provide services, which is essential for any economic activity. Labour is unique as it cannot be separated from the labourer and requires their direct participation.

170. Mention two ways by which efficiency of labour can be improved.

Ans : SQP 2018

(i) Fair and Prompt Payment of Wages : Workers should receive timely and fair compensation for their efforts.

(ii) Provision of Bonuses : Additional monetary benefits, such as bonuses, should be provided to motivate workers.

(iii) Improved Working Conditions : Workplaces, including factories, should ensure safe and healthy environments for employees.

(iv) Social Security Measures : Benefits like insurance, provident funds, and pensions should be offered to provide financial security to workers.

(v) Reasonable Working Hours : The duration of work should not exceed 8 hours a day to ensure proper work-life balance.

(vi) Technical Education Facilities : Training programs and technical education should be expanded to enhance workers' skills across all sectors.

171. Identify the type of division of labour in an automobile industry. Also explain, why?

Ans : COMP 2017

The type of division of labour in an automobile industry is complex division of labour. This is because automobile production involves multiple skilled workers, each specializing in a specific task or process, such as designing, assembling, and quality testing, which require high expertise and coordination.

172. Define simple division of labour.

Ans : MAIN 2016, 2014

In simple division of labour, production is divided into straightforward tasks that are completed by different workers based on their roles. Each worker's contribution is direct and visible, making it easy to recognize their specific tasks.

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173. Which of the following is considered as labour in Economics? Give a reason for your answer.

(i) A professor working in a college.

(ii) A social worker serving in an orphanage.

Ans : COMP 2015

(i) A professor working in a college : This is considered labour in Economics because the professor's mental effort generates utility and income, fulfilling the criteria for labour.

(ii) A social worker serving in an orphanage : This is not considered labour in Economics because it is voluntary work done without any remuneration, which does not align with the economic definition of labour.

174. Define the term capital as a factor of production.

Ans : SQP 2020

Capital refers to man-made resources, such as machinery, tools, and buildings, that are used in the production process. It is essential for increasing productivity and facilitating economic activities.

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175. Capital is a produced means of production. Explain.

Ans : MAIN 2020

Capital is wealth in the form of money or assets, created for production purposes. It represents the financial strength of an individual, organization, or nation and is used for development or investment. Examples include machines, tools, and equipment.

176. Explain any two characteristics of capital.

Ans : COMP 2018

(i) Capital is Man-Made : Unlike natural resources, capital is created through human efforts to aid production.
(ii) Capital is Durable : Capital goods, such as machines and tools, are long-lasting and can be used over time in the production process.

177. Capital depreciates. Explain.

Ans : SQP 2020

Capital goods lose their value over time due to wear and tear, obsolescence, or usage. This reduction in value is known as depreciation and impacts the overall productive efficiency of capital.

178. What is the significance of capital in promoting economic growth?

Ans : MAIN 2011

Capital plays a crucial role in enhancing the productivity of labour, enabling large-scale production, and improving living standards. It supports better employment opportunities and overall economic development.

179. The income earned by an entrepreneur is residual in nature. Explain.

Ans : COMP 2019

An entrepreneur earns profit only after paying the returns to other factors of production, such as rent for land, wages for labour, and interest on capital. The remaining income is residual, as it depends on the efficiency of the entrepreneur and the ability to minimize costs while maximizing revenues.

180. State any two differences between an entrepreneur and other factors of production.

Ans : SQP 2016

(i) Role in Decision-Making : An entrepreneur makes critical decisions regarding production, investment, and resource allocation, whereas other factors like land, labour, and capital do not involve decision-making.
(ii) Risk-Taking : Entrepreneurs bear the risks of business losses or gains, while other factors are entitled to fixed payments regardless of the enterprise's success or failure.

181. Look at the image below and explain the advantages of division of labour in production.



Ans : SQP 2017

Division of labour involves breaking down the production process into smaller tasks, each handled by specialized workers.

Advantages include :

(i) Increased Efficiency : Specialization allows workers to master specific tasks.
(ii) Improved Quality : Repetition of tasks leads to higher precision.
(iii) Time-Saving : Workers do not need to switch tasks, reducing delays.
(iv) Mass Production : Suitable for large-scale industries, leading to cost-effective production.

182. Analyze the image and explain the process of capital formation.



Ans : COMP 2019

Capital formation refers to increasing the stock of capital goods like machines, tools, and infrastructure to enhance production.

Process of capital formation:

(i) Savings : Households and firms save a portion of their income.
(ii) Mobilization of Savings : Financial institutions like banks collect and pool these savings.
(iii) Investment : The mobilized savings are invested in creating capital goods, leading to higher productivity and economic growth.

183. Examine the image below and explain the role of land as a factor of production.

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Ans : COMP 2011

Land is a natural resource provided by nature, essential for production. It serves as the base for agriculture, construction, and industry. Characteristics of land include immobility, fixed supply, and heterogeneity. Its productivity is influenced by factors like fertility, irrigation, and climate. For instance, fertile plains with proper irrigation are more productive than arid lands.

184. Observe the image and explain the reasons for low efficiency of labour in India.



Ans : MAIN 2021

The efficiency of Indian labour is low due to the following reasons:

(i) Lack of Education and Training : Many workers lack access to proper education or skill development programs.

(ii) Poor Health Conditions : Inadequate healthcare and nutrition reduce worker productivity.

(iii) Outdated Technology : Dependence on traditional methods and tools hinders productivity.

(iv) Unfavourable Working Conditions : Unsafe and unhealthy work environments discourage efficient output.

185. Examine the images below and identify the factors of production. Explain any one characteristic of labour.



Ans : SQP 2000

Identified Factors : Labour (worker operating machinery) and Land (agricultural field).
Characteristic of Labour : Labour is heterogeneous, meaning workers differ in skills, training, efficiency, and productivity. For example, a skilled factory worker can operate complex machinery more efficiently than an unskilled labourer.

186. Analyze the images below and explain one advantage of division of labour.

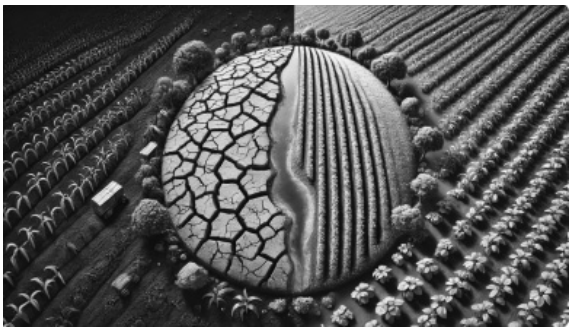


Ans : SQP 2011

Identified Advantage : Increased Efficiency
Division of labour allows workers to specialize in a specific task, improving speed and precision. For example, in an assembly line, each worker performs a specific operation, leading to faster and more cost-effective production.

187. Examine the images and discuss any two factors affecting the productivity of land.

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Ans : COMP 2005

(i) Fertility of Land : Fertile soil produces better yields, while barren land is less productive.
(ii) Irrigation Facilities : Proper irrigation ensures consistent water supply, enhancing productivity, while dry areas limit agricultural output.

188. The productivity of land plays a significant role in shaping the production structure of an economy.' Justify the statement with two reasons.

Ans : MAIN 2019

(i) Increased Agricultural Output : Improved land productivity ensures better crop yields, leading to higher food security and surplus for trade.
(ii) Industrial Growth : Enhanced productivity supports raw material supply for industries, contributing to economic development.

189. Division of labour increases the efficiency of workers and contributes to overall economic growth.' Justify the statement with two reasons.

Ans : COMP 2013

(i) Skill Development : Workers specialize in tasks, leading to expertise and better performance.
(ii) Time Efficiency : Specialization minimizes the time spent switching tasks, resulting in faster production.

190. Capital formation is essential for the economic development of a country.' Justify the statement with two reasons.

Ans : MAIN 2016

(i) Infrastructure Development : Capital accumulation enables investment in industries, transportation, and communication.
(ii) Job Creation : Increased capital formation leads to the establishment of enterprises, providing employment opportunities.

191. Entrepreneurs play a vital role in economic development.' Justify the statement with two reasons.

Ans : SQP 2019

(i) Innovation : Entrepreneurs introduce new products and technologies, enhancing productivity and competitiveness.
(ii) Wealth Generation : By setting up businesses, entrepreneurs contribute to national income and economic growth.

192. Efficient labour enhances the overall productivity of an economy.' Justify the statement with two reasons.

Ans : MAIN 2010

(i) Improved Quality of Output : Skilled and efficient labour ensures better quality products and services.
(ii) Higher Production Rates : Efficient labour performs tasks faster, reducing production costs and increasing output.

193. The productivity of land depends on multiple factors.' Justify the statement with two reasons.

Ans : COMP 2012

(i) Natural Fertility : Fertile land with proper irrigation ensures higher crop yields.
(ii) Use of Technology : Adoption of advanced farming techniques and equipment improves productivity.

194. Physical and financial capital are crucial for the production process.' Justify the statement with two reasons.

Ans : SQP 2019

(i) Facilitates Production : Physical capital like machinery and tools helps in faster and more efficient production.
(ii) Supports Investment : Financial capital provides funds for purchasing raw materials and expanding production capacity.

195. Division of labour benefits both workers and employers.' Justify the statement with two reasons.

Ans : MAIN 2021

(i) Increased Efficiency for Employers : Specialization allows faster production, reducing costs and maximizing profits.

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(ii) Skill Development for Workers : Repeatedly performing a specific task helps workers master their skills and gain expertise.

196. Justify the following statement with any two valid arguments:
'The productivity of land is not uniform across regions.'

Ans : SQP 2000

(i) Soil fertility : Regions with fertile soil have higher productivity.
(ii) Availability of irrigation : Areas with better irrigation facilities produce higher yields.

197. Justify the following statement with any two valid arguments:
'Division of labour improves the efficiency of production.'

Ans : MAIN 2005

(i) Specialization : Workers become skilled in specific tasks, increasing speed and accuracy.
(ii) Time-saving : Specialization reduces time wasted in switching between tasks.

198. Justify the following statement with any two valid arguments:
Capital is essential for the production process.'

Ans : COMP 2009

(i) Enables machinery : Capital is used to purchase equipment, which increases efficiency.
(ii) Facilitates growth : It provides the funds needed for business expansion and innovation.

199. Justify the following statement with any two valid arguments:
Efficient labour leads to higher productivity in an economy.'

Ans : SQP 2010

(i) Skill improvement : Skilled workers perform tasks better and faster.
(ii) Motivation : Well-compensated and motivated labour contributes more effectively.

200. Justify the following statement with any two valid arguments:
'Entrepreneurs are essential for economic development.'

Ans : MAIN 2014

(i) Innovation : Entrepreneurs introduce new products and services, fostering growth.
(ii) Job creation : They establish businesses, generating employment opportunities.

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201. Justify the following statement with any two valid arguments:
'The process of capital formation is vital for economic progress.'

Ans : SQP 2015

(i) Investment in infrastructure : Capital is used to develop industries and transport systems.
(ii) Promotes savings : Savings contribute to funds available for investment.

202. Justify the following statement with any two valid arguments:
'Land is a fixed factor of production.'

Ans : COMP 2017

(i) Limited supply : Land cannot be increased or reduced artificially.
(ii) Location-specific : Its productivity depends on its geographical location.

203. Justify the following statement with any two valid arguments:
'Labour efficiency in India is lower compared to developed nations.'

Ans : MAIN 2019

(i) Lack of training : Workers in India often lack access to proper skill development programs.
(ii) Health conditions : Poor health and working conditions lower efficiency.

204. Justify the following statement with any two valid arguments:
'Physical capital is essential for modern industries.'

Ans : SQP 2000

(i) Use of machinery : Physical capital like tools and machines increases production speed.
(ii) Improves quality : Modern equipment ensures better quality products.

205. Justify the following statement with any two valid arguments:
'An entrepreneur bears the risk of business failure.'

Ans : COMP 2001

(i) Market uncertainty : Entrepreneurs face the risk of fluctuating demand and competition.
(ii) Financial risks : Investments may result in losses if the business does not succeed.

206. How does the productivity of land affect the economic development of a nation?

Ans : MAIN 2004

(i) Higher output : Increased land productivity ensures better agricultural and industrial production.
(ii) Resource utilization : Efficient land use reduces wastage and boosts overall economic stability.

207. Explain how division of labour impacts the production structure of an economy.

Ans : COMP 2006

(i) Increased efficiency : Workers specialize in tasks, leading to faster and higher-quality production.
(ii) Cost reduction : Specialization reduces costs by improving productivity and minimizing errors.

208. How does capital formation contribute to the growth and development of a nation?

Ans : SQP 2010

(i) Infrastructure development : Capital is used to build industries, transport, and communication systems.
(ii) Job creation : Investment in capital formation creates employment opportunities.

209. Why is the role of entrepreneurs critical for innovation in an economy?

Ans : MAIN 2015

(i) Introduction of new ideas : Entrepreneurs innovate products and services, increasing competitiveness.
(ii) Economic transformation : They help industries adapt to changing technologies and markets.

210. What role does the efficiency of labour play in shaping the production structure of a country?

Ans : COMP 2017

(i) Higher output : Skilled and motivated workers produce more in less time.
(ii) Economic stability : Efficient labour reduces dependency on imports and promotes self-reliance.

211. How does the availability of financial capital influence the production structure of an economy?

Ans : MAIN 2018

(i) Enables investment : Financial capital funds businesses, supporting growth and innovation.
(ii) Supports diversification : It allows industries to expand and diversify into new areas.

212. Explain how the characteristics of land impact its productivity.

Ans : SQP 2000

(i) Soil fertility : Fertile soil produces better yields and supports sustainable agriculture.
(ii) Geographical location : Proximity to markets and resources enhances the productivity of land.

213. What are the key functions of entrepreneurs in promoting economic development?

Ans : COMP 2001

(i) Risk-taking : Entrepreneurs invest in uncertain markets, driving innovation and growth.
(ii) Job creation : By establishing businesses, they generate employment opportunities.

214. How does labour specialization impact the production efficiency in industries?

Ans : MAIN 2004

(i) Skill development : Specialization leads to expertise, improving task performance.
(ii) Time-saving : Focused tasks reduce time wastage, increasing output efficiency.

215. Why is capital considered a key factor in industrial growth?

Ans : SQP 2006

(i) Supports machinery acquisition : Capital is used to buy advanced tools and equipment.
(ii) Enables large-scale production : Adequate capital facilitates bulk production, reducing costs.

216. Entrepreneurs are innovators," said Schumacher. Explain briefly.

Ans : COMP 2011

According to Schumacher, innovation is one of the most crucial functions of an entrepreneur. An entrepreneur introduces new products, improves existing products, adopts innovative methods of production, finds new markets for products, or identifies cheaper sources of raw materials. Through these actions, the entrepreneur drives

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innovation, making them an innovator in the economy.

217. An entrepreneur is an organiser but an organiser need not be an entrepreneur." Explain.

Ans : SQP 2013

An entrepreneur is someone who organizes the business, takes risks, and drives production. In small-scale production, the entrepreneur assumes the role of an organiser. However, in large organizations like joint-stock companies, the organizing function is performed by salaried managers or the board of directors, who are not entrepreneurs. This distinction highlights that not all organizers are entrepreneurs.

218. Distinguish between real capital and money capital. Which of the two has greater significance in economic growth?

Ans : MAIN 2016

Point of Difference	Real Capital	Money Capital
Definition	Real capital includes physical assets like machines, properties, and tools.	Money capital refers to cash or monetary resources used to buy real capital.
Significance in Growth	Directly enhances production and economic growth.	Indirectly supports growth by enabling the purchase of real capital.

Greater Significance : Real capital has a higher significance in economic growth because it directly contributes to the production process.

219. Using examples, classify capital into fixed and circulating capital.

Ans : SQP 2019

(i) Fixed Capital : These are assets used repeatedly in production over a long time. Examples include machinery, factory buildings, and tools.

(ii) Circulating Capital : These are assets consumed during the production process. Examples include raw materials like cotton and fuel.

FIVE MARKS QUESTIONS

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220. (i) Define labour as a factor of production.

(ii) Mention any three decision-making functions of an entrepreneur.

Ans : COMP 2024

(i) Labour is a critical factor of production that includes the physical and mental efforts of individuals. It contributes significantly to economic output, productivity, and income generation, playing a vital role in driving economic growth and development.

(ii) Decision-Making Functions of an Entrepreneur:

(a) Choosing the Type of Business : Entrepreneurs decide on the legal structure of their business, such as sole proprietorship, partnership, or corporation. This decision is based on factors like personal preferences, financial resources, and liability considerations.

(b) Determining the Scale of Operations : Entrepreneurs assess the size and scope of their business operations, taking into account factors such as market demand, available resources, and growth potential. This evaluation helps them decide whether to operate on a small, medium, or large scale.

(c) Setting Prices and Marketing Strategies : Entrepreneurs establish prices for their products or services by considering market conditions, competitor pricing, and production costs. Additionally, they develop marketing strategies, such as advertising and promotions, to attract customers and boost sales.

221. (i) Define productivity of land.

(ii) Explain any three factors affecting productivity of land.

Ans : SQP 2024

(i) The productivity of land refers to its capacity to produce outputs such as crops, livestock, or other goods and services per unit area over a specific time frame. It measures the efficiency with which land resources are utilized to generate agricultural or economic yields, which are influenced by factors such as soil quality, climate, management practices, and technological advancements.

(ii) Factors Affecting Productivity of Land:
(a) Natural Fertility of Land : The natural attributes of soil, including its composition, texture, depth, and nutrient content, determine its productivity. Fertile soil enables higher yields without requiring additional inputs.
(b) Proper Use of Land : Adopting effective land management strategies such as crop rotation, soil conservation, and irrigation can enhance productivity by maintaining soil health and minimizing environmental degradation.
(c) Investment on Land : Enhancements in land infrastructure, such as drainage systems, terracing, and fertilization, can significantly improve productivity by increasing soil fertility and water retention capacity.

222. (i) Define an entrepreneur.
(ii) Explain any three roles of an entrepreneur in the economic development of the country.

Ans : MAIN 2023

(i) An entrepreneur is an individual who possesses the capability and determination to establish, manage, and achieve success in a startup venture while taking on associated risks, with the aim of earning profits. A prime example of entrepreneurship is initiating a new business venture.
(ii) Three significant roles of an entrepreneur in economic development include:
(a) Starting New Businesses : Entrepreneurs bring innovative ideas to life, eliminating society's dependence on outdated technologies and creating avenues for growth.
(b) Creating Employment Opportunities : By establishing new businesses, entrepreneurs generate more jobs, thereby increasing income levels and reducing unemployment.
(c) Lifeline of a Nation : A country's progress heavily relies on the advancement of entrepreneurship. Nations strive to promote trade and share the benefits of development through entrepreneurship, which serves as a benchmark for measuring a nation's development.

223. Why is the efficiency of labour low in India? (Any three points)

Ans : COMP 2023

Reasons for Low Labour Efficiency in India:
(i) Low Education Standards : The Indian education system heavily relies on rote memorization rather than skill development and job-oriented training.
(ii) Engagement in the Primary Sector : A significant portion of the Indian workforce is employed in the primary sector, where disguised and seasonal unemployment are prevalent.
(iii) Informal Sector : The informal sector employs a majority of the labour force but fails to provide adequate working conditions and facilities to the workers.

224. Discuss any five important qualities of an entrepreneur.

Ans : MAIN 2023

Five qualities of an entrepreneur are:
(i) Creativity : Entrepreneurs must exhibit creativity to design new products that address the current market needs. Additionally, they should devise innovative ways to implement their ideas and manage their ventures efficiently.
(ii) Passion : Entrepreneurs should be deeply passionate about their work, which motivates their teams and fosters a productive and positive work environment.
(iii) Risk-taking : Since entrepreneurs bring together factors of production to launch a startup, they must be prepared to take calculated risks as they are the last to reap profits after settling all obligations.
(iv) Professionalism : Entrepreneurs are expected to maintain professionalism by setting boundaries and avoiding personal conflicts. Any bias or personal issues may adversely affect their work quality and reputation.
(v) Planning : Entrepreneurs should meticulously plan activities for their teams to ensure smooth operations. Lack of clear instructions can lead to inefficiencies or avoidance of critical tasks.

225. Explain any five characteristics of land.

Ans : SQP 2023

Characteristics of Land:
(i) Land as a Free Gift of Nature : Unlike other factors of production like labor and capital, land is a natural resource provided without

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human effort.

(ii) Land is Fixed in Supply : The total amount of land remains unchanged. It is a scarce resource with perfectly inelastic supply.

(iii) Land is Imperishable : While man-made goods are perishable, land remains intact as it is a natural gift that cannot be destroyed.

(iv) Immovable : Land cannot be relocated or shifted from one place to another, unlike other factors of production.

(v) No Cost of Production : Since land is a natural resource, it does not involve any production cost.

226. (i) What is the meaning of capital formation?

(ii) Explain any three significances of capital formation in an economy.

Ans : MAIN 2023

(i) Meaning of Capital Formation : Capital formation refers to increasing the capital stock of a country. It involves adding to the economy's productive capacity through investment in capital goods. It is a flow concept, signifying the value of the output produced that comprises capital goods.

(ii) Significance of Capital Formation:

(a) Boosts Production and Income : Investments made during capital formation lead to increased production and higher income levels in the economy.

(b) Controls Inflation : When commodities are in shortage, prices rise. Capital formation facilitates investment, leading to higher production, which helps stabilize prices.

(c) Improves Balance of Payments (BOP) : Capital formation contributes to reducing foreign debt by improving the country's economic situation.

227. Define land. Explain any four characteristics of land.

Ans : SQP 2020,2019,2014

Land includes all natural resources provided by nature, such as air, water, soil, forests, and minerals, used in the production process. It is a free gift of nature.

Characteristics of Land :

(i) Fixed Supply : The total quantity of land is limited and cannot be increased or decreased according to demand.

(ii) Immobility : Land cannot be moved from one place to another. Its location is fixed and permanent.

(iii) Heterogeneous Nature : No two pieces of land are identical. Variations in fertility, climate, and topography make land unique.

(iv) Alternative Uses : Land can be utilized for different purposes like agriculture, construction, forestry, or industrial activities based on its type and location.

(v) Cost less Production : Land is not created by human effort, making it a free gift of nature. It does not involve any production cost.

228. Explain four important characteristics of labour as a factor of production.

Ans : COMP 2020,2016

1. Labour Cannot Be Separated from the Labourer : Unlike land and capital, labour is inseparable from the person performing it. For example, a teacher's skills can only be utilized in the classroom if they are physically present to teach.
2. Labour is the Beginning and End of Production : Production starts and ends with labour. Without labour, neither goods nor services can be produced. For instance, workers are essential for operating machinery or delivering services.
3. Labour Varies in Efficiency : The productivity of labour differs based on factors such as training, skill level, and experience. For example, a trained worker is more efficient than an untrained one.
4. Human Labour Has an Element of Judgment : Being human, labourers possess intelligence and the ability to make decisions, which distinguishes them from other factors of production like machinery or tools.
5. Labour Cannot Be Accumulated : Labour cannot be stored or stockpiled for future use. It is perishable, as unutilized labour is lost permanently.
6. Labour is Mobile : Labour has the ability to move from one place to another based on needs. It can shift locations wherever and whenever required, making it adaptable and flexible in nature.
7. Labour Creates Capital : Capital is a result of labour's efforts and accumulation. Labour plays a more crucial role in the production process as capital is generated through the work and productivity of labour.
8. Labour is Perishable : Labour cannot be stored or saved for later use. If a worker

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remains unemployed, the labour they could have provided is permanently lost and cannot be recovered.

229. Give any five differences between product-based and process-based division of labour.

Ans : COMP 2018

Product-Based Division	**Process-Based Division**
The entire production of a good or service is completed individually or collectively by workers or families.	The production process is divided into multiple stages, with each worker specializing in one or a few tasks.
Workers specialize in the complete production of a commodity or service.	Workers specialize in a specific stage of the production process.
It is simple in nature.	It is more complex in nature.
It is labour-intensive and relies more on manual work.	It is capital-intensive and relies on machinery and advanced tools.
Commonly found in small enterprises or family-run businesses.	Commonly found in large industries or corporate setups.

230. Define labour. Suggest three methods to improve the efficiency of Indian labour.

Ans : MAIN 2017

Definition of Labour : Labour refers to the aggregate of all human physical and mental efforts used in the creation of goods and services.

Methods to Improve Efficiency of Indian Labour:

(i) Productivity-Linked Wages : Providing wages based on productivity to motivate workers.

(ii) Improved Working Conditions : Ensuring better and safer working environments.

(iii) Job Security : Providing stable employment and reducing job-related uncertainty.

(iv) Security of Basic Needs : Meeting basic needs like healthcare, housing, and education for workers.

231. Give five reasons to explain low efficiency of labour in India.

Ans : SQP 2020

(i) Lack of Education and Training : Many workers in India do not have access to proper education or skill development programs, leading to lower productivity.

(ii) Poor Health Conditions : Workers often face health issues due to inadequate nutrition and lack of healthcare facilities, reducing their efficiency.

(iii) Outdated Technology : Many sectors rely on traditional methods and outdated tools, which limit productivity.

(iv) Low Wages : Insufficient compensation fails to motivate workers, impacting their overall performance.

(v) Unfavourable Working Conditions : Poor working environments, including unsafe factories and lack of proper facilities, hinder labour efficiency.

232. With the help of a suitable example, explain the meaning of geographical or territorial division of labour. Discuss any three advantages of division of labour.

Ans : SQP 2017, 2014

Definition of Geographical or Territorial Division of Labour : This refers to the division of labour across specific geographical or territorial areas, where certain regions specialize in producing particular industrial or agricultural goods or services. For example, the textile industry in Gujarat or the IT industry in Bangalore.

Advantages of Division of Labour :

1. Increase in Efficiency of Labour : Division of labour enhances efficiency by assigning tasks based on the skills, training, and aptitude of workers. Repeating the same task regularly allows workers to master it, improving productivity.
2. Improvement in Quality of Work : Division of labour not only increases the quantity but also enhances the quality of production. The use of advanced machinery and skilled labour contributes to better outcomes, increasing profits and goodwill.
3. Large-Scale Production : It facilitates mass production by effectively utilizing resources like raw materials, labour, and tools. This leads to economies of scale and maximizes output.
4. Reduced Average Cost : Specialized workers, along with machinery, produce more goods in less time and with minimal wastage. This lowers production costs and reduces average costs.

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5. Rise in the Standard of Living : Division of labour enables the production of a variety of goods at lower costs, making them more affordable. Consumers benefit from better choices and improved quality.
6. Economic Growth : It optimizes the use of resources and increases employment opportunities, contributing to the overall growth of the economy.
7. Expansion of Employment Opportunities : Division of labour creates more specialized jobs, leading to a wider variety of employment options for workers.
8. Geographical Division of Labour : Certain regions specialize in specific industries, such as hosiery in Ludhiana, cotton textiles in Ahmedabad, and the jute industry in Kolkata. This territorial specialization boosts efficiency and productivity.

233. Define division of labour. Explain three benefits of division of labour to producers.

Ans : COMP 2015

Definition of Division of Labour : Division of labour refers to a production process where a worker or group of workers is assigned a specific task based on their skills and expertise to improve efficiency and productivity.

Benefits of Division of Labour to Producers :

(i) Increased Efficiency : Specialization allows workers to perform tasks they are skilled at, which enhances their efficiency and speeds up production.

(ii) Improved Quality : By focusing on specific tasks, workers produce higher-quality goods, benefiting the producer by building reputation and trust.

(iii) Cost Reduction : Specialization minimizes wastage of time and resources, leading to lower production costs and higher profits for producers.

234. Define Labour. Explain Four Important Characteristic Features of Labour.

Ans : MAIN 2013

Definition of Labour : Labour is a primary factor of production. It includes the aggregate of all human physical and mental efforts used in the production of goods and services.

Four Characteristics of Labour:

(i) Inseparability from the Labourer : Labour cannot be separated from the person performing it. For instance, a teacher's skills can only be utilized when they are present to teach.

(ii) Labour is Perishable : Labour cannot be stored for future use. If a worker remains unemployed for a day, the labour of that day is lost forever.

(iii) Variation in Efficiency : The efficiency of labour depends on factors like education, training, skill level, and working conditions. Skilled workers are more productive than unskilled ones.

(iv) Labour Creates Capital : Labour is essential for the creation of capital. It is through the efforts of workers that resources are transformed into goods or investments.

235. Define capital formation. Briefly discuss the process of capital formation.

Ans : SQP 2019,2014

Definition of Capital Formation : Capital formation refers to the process of increasing the stock of capital goods, such as machines, tools, and infrastructure, to facilitate production and economic development.

Process of Capital Formation:

(i) Savings : Individuals and institutions save a part of their income, which is the primary source for capital formation.

(ii) Mobilization of Savings : Savings are pooled together by financial institutions like banks, which channel them into productive investments.

(iii) Investment : Mobilized funds are invested in creating capital goods and infrastructure to boost production and support economic growth.

236. Discuss five characteristics of capital as a factor of production.

Ans : COMP 2012

(i) Capital is a Passive Factor of Production : Capital requires the active involvement of labour to function. For example, machines need operators to work effectively.

(ii) Capital Depreciates : Over time, capital goods lose their value due to continuous use, wear and tear, or obsolescence.

(iii) Man Produces Capital : Capital is created through human efforts. For instance, tools, machines, and infrastructure are produced by labour.

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(iv) Capital is Not Indispensable : While helpful, capital is not essential for production, as land and labour are the primary and indispensable factors.
(v) Capital is Prospective : Capital is forward-looking, as its accumulation generates income and enhances future production capabilities.
(vi) Capital is Productive : Adequate capital improves production to a significant extent when combined with efficient labour.

237. Define the term 'Entrepreneur.' Discuss three ways by which an entrepreneur promotes economic growth.

Ans : SQP 2020, 2017

Definition : An entrepreneur is someone who has the ability and desire to establish, manage, and succeed in a business venture while taking on risks to earn profits.
Three Ways Entrepreneurs Promote Economic Growth:
(i) Creates Large-Scale Employment Opportunities : Entrepreneurs generate significant job opportunities by establishing small and large-scale businesses, addressing unemployment, especially in underdeveloped nations.
(ii) Balanced Regional Development : By setting up industries in backward regions, entrepreneurs contribute to public benefits like transport, healthcare, education, and entertainment, fostering regional growth.
(iii) Increase in National Income : Entrepreneurs contribute to producing goods and services, which boosts exports and reduces imports, increasing national income and the standard of living.
(iv) Introduction of New Products and Services : Entrepreneurs explore innovative ideas, enhance production techniques, and expand businesses both horizontally and vertically.
(v) Encourages Innovation : Entrepreneurs foster creativity by introducing new methods of production and improving goods and services, thereby advancing economic development.

238. Discuss the risk-bearing and decision-making functions of an entrepreneur.

Ans : COMP 2019

(i) Risk-Bearing Function : Entrepreneurs take on the risk of losses in business, including financial uncertainties and changing market demands, to earn profits.
(ii) Decision-Making Function : Entrepreneurs make crucial decisions such as selecting production techniques, allocating resources, and formulating business strategies to ensure efficiency and profitability.

239. Why is the income of an entrepreneur residual in nature? Discuss any three functions of an entrepreneur.

Ans : MAIN 2013

Residual Income : The income of an entrepreneur is residual because it is earned only after paying other factors of production like wages, rent, and interest. The remaining income depends on the entrepreneur's ability to manage costs and generate revenue.
Functions of an Entrepreneur:
1. Risk-Bearing Function : This is the most critical function of an entrepreneur. Every business involves risk related to future demand, which is often unpredictable due to changing consumer tastes, preferences, and external factors like price structures, climatic conditions, and government policies. Entrepreneurs bear these risks and uncertainties while striving to ensure success.
2. Decision-Making : Entrepreneurs take key decisions about various aspects of the business, such as selecting the equipment to be used, determining the quality of products, setting the capital structure, evaluating the feasibility of the project, and defining organizational structure. These decisions guide and drive the new venture toward success.
3. Fund Raising : Entrepreneurs are responsible for securing financial resources, both internally and externally, to support the business. This includes managing funds required for operations and ensuring proper financial management.
4. Idea Generation : Entrepreneurs generate innovative business ideas by leveraging their vision, insight, observation, education, and training. These ideas are developed to identify opportunities that fulfill market demands.
5. Determination of Objectives : Entrepreneurs set clear and achievable goals for the business. They outline the purpose and direction of the business by identifying specific targets that must be met.

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6. Identifying Entrepreneurial Opportunities : Entrepreneurs identify opportunities in the market that are not always apparent to others. These opportunities are often based on human needs such as food, education, and fashion. Entrepreneurs rely on creativity, imagination, and innovation to capitalize on these opportunities.
7. Turning Ideas into Action : Entrepreneurs transform their ideas into reality by collecting market information, analyzing demand, and implementing strategies to meet business goals. This process involves taking practical steps to turn opportunities into successful ventures.
8. Setting Up the Enterprise : The entrepreneur is responsible for fulfilling legal formalities, identifying a suitable location, designing the premises, installing machinery, and arranging other necessary resources to establish the business.
9. Managing the Enterprise : Entrepreneurs play a crucial role in running the enterprise. They manage resources such as manpower, materials, and finances to organize production effectively. Additionally, they ensure the marketing of goods and services, aiming for appropriate returns or profits on investments.
10. Growth and Development : After achieving initial success, entrepreneurs focus on exploring higher goals for the enterprise's growth and development. They constantly strive for improvement and innovation to ensure the business reaches new levels of excellence.

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11 Re sourcing : Entrepreneurs secure essential resources like money, machinery, and manpower to sustain and grow the enterprise. This ensures the smooth functioning of the business and the achievement of its objectives.

240. Discuss the qualities of an Entrepreneur.

Ans : SQP 2021

(i) Resolute Motivation and Passion : A successful entrepreneur is driven by passion for their goals. This passion fuels motivation, enabling them to embrace challenges, learn new things, and pursue their objectives with dedication.

(ii) Self-Discipline : Entrepreneurs possess a strong sense of self-discipline. They manage their inner emotions and maintain focus on their responsibilities, fostering a direction-oriented approach to achieving tasks and goals.

(iii) Risk-Taking Ability : Entrepreneurs are skilled at evaluating and taking calculated risks. While not all risks lead to success, a successful entrepreneur identifies beneficial risks and avoids those that might harm their enterprise.

(iv) Creative Thinking : Entrepreneurs are innovative thinkers who generate unique ideas to address challenges or fulfill market demands. This creativity helps them develop new products, processes, or solutions that stand out in the competitive market.

(v) Persistence : Entrepreneurs demonstrate resilience and persistence. Despite facing failures or obstacles, they continuously push forward, learning from setbacks and staying committed to achieving their goals.

241. In the context of land as a factor of production in an economy, what are the key factors affecting the productivity of land, and how can these factors influence the production structure of a nation?

Ans : MAIN 2020

The productivity of land refers to the amount of output that can be obtained from a unit area of land. Several factors affect the productivity of land :

(i) Fertility of the land : Naturally fertile soil leads to better agricultural yields. Fertility can be enhanced through proper crop management and fertilization.

(ii) Methods of cultivation : Advanced methods such as crop rotation, use of high-yield variety seeds, and mechanization improve productivity.

(iii) Irrigation facilities : Reliable irrigation systems ensure that crops receive adequate water supply, improving output even in less fertile areas.

(iv) Technological advancements : The use of modern tools and machinery like tractors and harvesters increases efficiency.

(v) Proper management : Skilled management helps in optimizing the use of land, avoiding wastage, and ensuring sustainable use.

The productivity of land directly impacts the production structure of a nation. Higher productivity leads to an increase in agricultural

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output, which forms the basis of food security, raw material supply for industries, and overall economic development.

242. Considering labour as a critical component of the productive mechanism, what are the key reasons for the low efficiency of Indian labour, and how does this impact the production structure in the economy?

Ans : COMP 2011

Labour efficiency refers to the ability of workers to produce more output in a given time with the same resources. The efficiency of labour in India is considered low due to several reasons:

(i) Poor education levels : A lack of access to quality education results in unskilled and semi-skilled workers.

(ii) Health issues : Malnourishment and poor healthcare services reduce the physical and mental capability of workers.

(iii) Inadequate training : Vocational and technical training is often limited, leaving workers without specialized skills.

(iv) Use of outdated tools : Workers are not provided with modern equipment, which hinders productivity.

(v) Unfavourable working conditions : Long working hours, unsafe workplaces, and lack of incentives demotivate workers.

This low efficiency of labour impacts the production structure by reducing overall productivity, increasing the cost of production, and slowing down economic growth. It hinders the competitiveness of Indian industries in the global market and limits the pace of technological and industrial advancements.

243. With the increasing importance of capital in production, what are the main types of capital, and how do physical and financial capital play a role in shaping an economy's productive structure?

Ans : SQP 2016

Capital is an essential factor of production that includes man-made resources used for further production. There are two main types of capital:

(i) Physical capital : This includes tangible assets like machinery, tools, buildings, and infrastructure. Physical capital enhances the efficiency of labour and land by enabling large-scale production and reducing dependency on manual labour.

(ii) Financial capital : This refers to monetary resources like funds, credit, and investments that are required to acquire physical capital and other inputs. Financial capital plays a critical role in supporting businesses and startups.

The role of capital in the production structure is immense. Physical capital ensures the production of goods and services at a faster and more efficient rate. Financial capital, on the other hand, facilitates innovation, research, and development by funding these activities. Together, they drive economic growth, increase employment opportunities, and support the industrial and technological advancement of a nation.

244. In the division of labour, how do different types contribute to production efficiency, and what are the primary advantages that arise from this economic practice?

Ans : COMP 2010

Division of labour is a system where the production process is broken down into specialized tasks assigned to different workers or groups. There are two main types:

(i) Simple division of labour : Each worker performs a single repetitive task. For example, a worker assembling a specific part in a factory.

(ii) Complex division of labour : Different workers or teams handle various stages of the production process, such as designing, manufacturing, and packaging.

The advantages of the division of labour include:

(i) Specialization : Workers become experts in their tasks, improving quality and speed.

(ii) Increased productivity : Repetition of tasks allows for faster and more efficient production.

(iii) Time-saving : Switching tasks is avoided, and workflow becomes more streamlined.

(iv) Cost efficiency : Production costs are reduced as resources are utilized optimally.

However, extensive reliance on division of labour may lead to worker monotony, dependency, and skill gaps, which need to be managed effectively to ensure long-term productivity.

245. Given the role of entrepreneurs in economic development, what are the primary functions of an entrepreneur, and how do they contribute to improving the productive mechanism in an economy?

Ans : MAIN 2010

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Entrepreneurs are individuals who organize and manage the factors of production to produce goods and services. Their primary functions are:

(i) Innovation : Entrepreneurs introduce new products, technologies, and processes, fostering growth and competition.

(ii) Risk-taking : They bear the financial, social, and market risks involved in starting and running a business.

(iii) Organizing resources : Entrepreneurs bring together land, labour, and capital efficiently to ensure maximum output.

(iv) Decision-making : They plan, strategies, and implement decisions crucial for business success.

(v) Employment generation : By creating businesses, they provide jobs and improve the standard of living.

Entrepreneurs play a critical role in economic development by promoting industrial growth, creating wealth, and fostering technological advancements. They drive the productive mechanism of an economy by ensuring efficient resource utilization and contributing to national income and economic progress.

246. What does the process of capital formation entail, and why is it critical for the sustained growth and development of an economy's production structure?

Ans : SQP 2014

Capital formation is the process of increasing the stock of physical and financial capital in an economy. It involves three main stages:

(i) Savings : Individuals, businesses, and governments save a portion of their income.

(ii) Mobilization of savings : Financial institutions like banks channel these savings into productive investments.

(iii) Investment : The mobilized funds are used to purchase capital goods like machinery, tools, and infrastructure.

Capital formation is essential for economic growth as it supports industrialization, improves productivity, and enhances the standard of living. It provides the resources required for technological advancements, job creation, and increased output. Without capital formation, economies face stagnation and limited growth opportunities.

247. What are the defining characteristics of land as a factor of production, and how do its unique features influence the productivity of other factors in the economy?

Ans : COMP 2017

Land, as a factor of production, refers to natural resources used in economic activities. Its key characteristics are:

(i) Immobility : Land cannot be moved from one place to another. Its location greatly influences its usage, such as fertile land for agriculture or coastal areas for ports.

(ii) Limited supply : The availability of land is fixed. While its productivity can be improved, the quantity cannot be increased.

(iii) Passive factor : Land cannot produce anything on its own; it needs labour, capital, and entrepreneurship for production.

(iv) Nature-given : Land is a gift of nature and not a man-made resource.

(v) Varied quality : Different types of land, such as agricultural, industrial, or residential, have varying levels of productivity.

Land influences the productivity of other factors by serving as the foundation for all economic activities. For instance, fertile land supports agriculture, while land in urban areas provides a base for industrial and commercial establishments. Proper use of land enhances overall productivity and supports economic development.

248. Considering labour efficiency, what are the factors that enhance the efficiency of labour, and why is improving labour efficiency crucial for economic development?

Ans : SQP 2019

Labour efficiency refers to the ability of workers to produce more output within a given time. Factors that enhance labour efficiency include:

(i) Education and training : Providing knowledge and skills through quality education and vocational training enhances worker capabilities.

(ii) Health and nutrition : Healthy workers are more productive and less prone to fatigue and illness.

(iii) Modern tools and technology : Access to advanced machinery and equipment reduces manual effort and improves productivity.

(iv) Work environment : Safe, comfortable, and motivating workplaces lead to better performance.

(v) Incentives and motivation : Adequate salaries, bonuses, and rewards encourage workers to perform better.

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Improving labour efficiency is crucial for economic development as it increases output, reduces production costs, and enhances competitiveness. Efficient labour helps industries thrive, improves the standard of living, and boosts national income, driving overall economic progress.

249. In the context of financial capital, how does its availability and efficient use influence the process of capital formation and the overall production structure in an economy?

Ans : MAIN 2010

Financial capital refers to the funds required for acquiring other factors of production like land, labour, and machinery. Its availability and efficient use directly impact the process of capital formation:

(i) Savings : Adequate savings in the economy create a pool of funds for investment.

(ii) Investment opportunities : Financial capital is channeled into productive assets like factories, infrastructure, and technology.

(iii) Technological advancements : Access to financial capital enables investment in research and development, boosting productivity.

(iv) Business expansion : Entrepreneurs use financial capital to expand operations, generate employment, and increase output.

Efficient use of financial capital ensures that funds are directed toward sectors with the highest potential for growth. This strengthens the production structure by fostering innovation, improving efficiency, and promoting economic stability.

250. How does the division of labour impact the production structure in an economy, and what are the potential drawbacks of relying extensively on this practice?

Ans : COMP 2013

Division of labour is the specialization of tasks in the production process, where each worker or group focuses on a specific activity. Its impact includes:

(i) Higher productivity : Specialization allows workers to become skilled in their tasks, leading to faster and more efficient production.

(ii) Cost reduction : Efficient use of resources reduces production costs.

(iii) Innovation : Specialization encourages innovation and improvement in methods and tools.

(iv) Economic growth : By increasing output, division of labour contributes to GDP growth.

However, drawbacks include:

(i) Monotony : Repetition of tasks can lead to boredom and dissatisfaction among workers.

(ii) Over-dependence : Disruptions in one stage of production can impact the entire process.

(iii) Lack of skill development : Workers may become too specialized, limiting their ability to adapt to new roles.

251. Why is the role of an entrepreneur considered crucial in the productive mechanism, and how do entrepreneurs contribute to the overall development of the economy?

Ans : SQP 2014

Entrepreneurs are key drivers of the productive mechanism as they organize and coordinate resources to produce goods and services. Their role is crucial due to the following reasons:

(i) Resource coordination : Entrepreneurs combine land, labour, and capital effectively to maximize output.

(ii) Innovation : They introduce new products, technologies, and methods, fostering competition and growth.

(iii) Risk-bearing : Entrepreneurs take financial and market risks, ensuring the success of new ventures.

(iv) Employment generation : By creating businesses, they provide jobs and reduce unemployment.

(v) Economic stability : Entrepreneurs boost productivity and create wealth, contributing to GDP growth and economic stability.

Entrepreneurs are essential for driving industrialization, technological advancement, and social progress. Their ability to innovate and adapt ensures that the economy remains dynamic and competitive on a global scale.

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252. The following table shows the productivity of land across four regions in an agricultural economy.

Region	Land Size (Acres)	Production (tons)	Productivity (tons per acre)
A	20	100	(i)
B	15	75	5
C	10	(ii)	8
D	30	150	(iii)

Based on the above table, answer the following questions:

(i) What is the productivity of land in Region A (i)?

(ii) What is the total production in Region C (ii)?

(iii) Calculate the productivity of land in Region D (iii).

(iv) From the table above, explain the meaning of productivity of land.

(v) Mention any two factors that affect the productivity of land.

Ans : MAIN 2017

(i) The productivity of land in Region A is 5 tons per acre.

(ii) The total production in Region C is 80 tons.

(iii) The productivity of land in Region D is 5 tons per acre.

(iv) The productivity of land refers to the output produced per unit area of land. It is calculated as total production divided by land size.

(v) Two factors affecting land productivity are:
(a) Fertility of the soil.
(b) Availability of irrigation.

253. The following table shows the productivity of workers in a furniture-making factory.

Worker	Hours Worked	Output (Units)	Productivity (Units per Hour)
A	6	(i)	10
B	(ii)	60	12
C	8	64	(iii)

Based on the above table, answer the following questions:

(i) What is the total output of Worker A (i)?

(ii) How many hours did Worker B work (ii)?

(iii) What is the productivity of Worker C (iii)?

(iv) Explain the importance of worker productivity in economic development.

(v) Mention two factors that affect worker productivity.

Ans : MAIN 2012

(i) The total output of Worker A is 60 units.

(ii) Worker B worked 5 hours.

(iii) The productivity of Worker C is 8 units per hour.

(iv) Worker productivity increases overall production, reduces costs, and ensures competitiveness in industries, leading to economic development.

(v) Two factors affecting worker productivity:
(a) Access to modern tools and technology.
(b) Quality of training provided.

254. The following table shows the output and productivity of agricultural land in four regions.

Region	Land Area (Acres)	Output (Tons)	Productivity (Tons per Acre)
X	20	(i)	5
Y	(ii)	50	10
Z	30	180	(iii)

Based on the above table, answer the following questions:

(i) What is the total output of Region X (i)?

(ii) How much land is used in Region Y (ii)?

(iii) What is the productivity of Region Z (iii)?

(iv) Explain the importance of land productivity in agriculture.

(v) Mention two ways to improve land productivity.

Ans : COMP 2015

(i) The total output of Region X is 100 tons.

(ii) The land used in Region Y is 5 acres.

(iii) The productivity of Region Z is 6 tons per acre.

(iv) Land productivity ensures higher agricultural output, reduces the need for additional land, and supports sustainable food production.

(v) Two ways to improve land productivity:
(a) Use of fertilizers and crop rotation.
(b) Improved irrigation and drainage systems.

255. Differentiate between Physical Capital and Financial Capital (five points).

Ans : SQP 2011

Point of Difference	Physical Capital	Financial Capital
Definition	Tangible assets like machinery, tools, and buildings used in production.	Monetary resources used for investments or business expansion.
Nature	Physical and tangible.	Intangible and represented in currency or financial instruments.

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Examples	Factories, equipment, vehicles.	Cash, stocks, bonds, and bank deposits.
Role in Production	Directly used in the production process.	Provides the funds needed to acquire physical capital.

256. Differentiate between Land and Labour (five points)

Ans : MAIN 2017

Point of Difference	Land	Labour
Definition	A natural resource used in production.	Human effort applied in production activities.
Supply	Fixed in quantity and immobile.	Flexible and varies with population and skill levels.
Nature	Passive factor of production.	Active factor of production.
Characteristics	Cannot be created or destroyed.	Can be trained and improved.
Role in Production	Provides a base for all economic activities.	Implements production using tools and techniques.

257. Differentiate between Labour and Capital.

Ans : COMP 2019

Point of Difference	Labour	Capital
Definition	Human effort used in production.	Man-made resources used in production.
Nature	Intangible; cannot be stored.	Tangible or intangible; can be stored and reused.
Supply	Depends on population and education.	Created through savings and investments.
Examples	Workers, employees, professionals.	Machinery, buildings, tools, funds.
Role in Production	Executes tasks using skills and knowledge.	Facilitates production by improving efficiency.

258. Differentiate between Division of Labour and Efficiency of Labour.

Ans : COMP 2013

Point of Difference	Division of Labour	Efficiency of Labour
Definition	Breaking down work into specialized tasks.	Ability of workers to produce more output in a given time.
Focus	Focuses on the organization of work.	Focuses on individual productivity.
Impact on Workers	Encourages specialization and skill development.	Depends on skill, health, and working conditions.
Role in Production	Increases speed and quality of production.	Enhances output and reduces costs.
Limitation	May lead to monotony.	Depends on external and personal factors.

259. Differentiate between Monetary Capital and Real Capital (five points).

Ans : MAIN 2010

Point of Difference	Monetary Capital	Real Capital
Definition	Money used for investment purposes.	Physical assets used in production
Examples	Cash, bank deposits.	Machinery, factories.
Nature	Intangible.	Tangible.
Role	Used to purchase other factors of production.	Directly involved in the production process.

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Depreciation	Not subject to physical wear and tear.	Subject to wear and tear.

260. Differentiate between Capital Formation and Division of Labour.

Ans : COMP 2015

Point of Difference	Capital Formation	Division of Labour
Definition	Process of accumulating savings and converting them into productive assets.	Breaking down work into specialized tasks.
Focus	Focuses on building assets for production.	Focuses on organizing production tasks.
Impact	Increases the stock of capital goods.	Improves productivity and efficiency.
Dependency	Dependent on savings and investments.	Dependent on workers and specialization.

261. State one difference between an entrepreneur and other factors of production. Explain any four qualities that an individual should possess to become a successful entrepreneur.

Ans : SQP 2019

An entrepreneur differs from other factors of production as they are not hired, whereas all other factors, such as land, labour, and capital, are employed or acquired by the entrepreneur.

A successful entrepreneur should have the following qualities:

(i) Knowledge : They must have comprehensive knowledge about their business and industry.

(ii) Decision-Making Skills : They should be able to make quick and effective decisions in challenging situations.

(iii) Farsightedness : They must possess the ability to foresee future opportunities and challenges.

(iv) Leadership : Strong leadership skills are crucial for guiding and motivating their team.

(v) Integrity : An entrepreneur must be honest and ethical in their dealings to build trust and maintain credibility.

262. Differentiate between Fixed Capital and Working Capital.

Ans : SQP 2010

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Point of Difference	Fixed Capital	Working Capital
Definition	Long-term assets used in production.	Short-term resources used for daily operations.
Nature	Permanent and not consumed in production.	Consumable and used up during production.
Examples	Factories, equipment, buildings.	Raw materials, cash, inventory.

263. Explain five ways by which entrepreneurs can promote the economic development of a country.

Ans : MAIN 2011

Role of Entrepreneurs in Economic Development:

(i) Mobilization of Savings : Entrepreneurs encourage the public to invest their idle savings by issuing shares and debentures. These investments contribute to capital formation, boosting industrial growth.

(ii) Employment Generation : By establishing businesses, entrepreneurs create job opportunities, helping to reduce unemployment in the country.

(iii) Reducing Regional Disparities : When entrepreneurs set up industries in underdeveloped or backward regions, they contribute to balanced regional development and reduce economic inequalities.

(iv) Improvement in Living Standards : Entrepreneurs produce a variety of consumer goods, enhancing the quality of life and increasing access to essential and luxury products.

(v) Reduction in Import Dependence : By producing goods and services domestically that were previously imported, entrepreneurs help reduce reliance on foreign countries and save valuable foreign exchange.

264. Define capital formation. Explain the three important stages of capital formation.

Ans : SQP 2013

Capital formation refers to the process of increasing the stock of capital over time by adding savings, investments, and assets to enhance production and economic growth.

Three Stages of Capital Formation :

(i) Generation of Savings : Savings provide the necessary resources for producing capital goods. This stage involves individuals and businesses setting aside a portion of their income. Savings depend on:
   (a) Ability to save : Income levels influence the capacity to save.
   (b) Willingness to save : People must prioritize savings over consumption.
   (c) Opportunity to save : Economic conditions and investment opportunities impact savings.

(ii) Mobilization of Savings : Once generated, savings must be mobilized to be utilized for investment purposes. This stage requires financial institutions, like banks, to channel the savings into productive activities Effective mobilization is essential for the efficient use of funds.

(iii) Investment : The final stage of capital formation involves using the mobilized savings for investment. Investments are directed toward purchasing machinery, equipment, or infrastructure. The level of investment is influenced by:
   (a) Rate of interest : Lower rates encourage borrowing and investment.
   (b) Expected profit : Higher profit expectations motivate investors to undertake risks.

265. Differentiate between mental and physical labour. State four ways in which division of labour influences production in an economy.

Ans : COMP 2015

Aspect	**Mental Labour**	**Physical Labour**
Definition	Involves intellectual work requiring education and skill.	Involves manual work requiring physical effort.
Examples	Doctors, engineers, teachers.	Rickshaw pullers, construction workers.
Skill Level	Requires specialized training and learning	No special training is generally required.
Nature	Non-exhaustive in terms of physical effort but mentally taxing.	Physically exhausting, involving repetitive tasks.
Scope	Focuses on decision-making and innovation.	Focuses on execution of tasks.

Four Ways Division of Labour Influences Production:

(i) Increases Efficiency : Specialization allows workers to focus on specific tasks, enhancing their productivity and speed.

(ii) Promotes Large-Scale Production : Division of labour makes it easier to produce goods on a larger scale due to streamlined processes.

(iii) Encourages Use of Specialized Machinery : Division of tasks supports the use of machines designed for specific operations, improving quality and quantity.

(iv) Ensures Optimal Utilization of Skills : Workers are assigned tasks based on their abilities, ensuring that each worker contributes effectively to the production process.

266. With respect to efficiency of labour, answer the following questions:

(i) On what basis can efficiency of labour be measured?

(ii) State two factors that influence the efficiency of labour.

(iii) Explain two measures for improving efficiency of labour in India.

Ans : MAIN 2010

(i) Efficiency of labour can be measured by the quantity of output produced by a worker in a given time period.

(ii) Two factors influencing efficiency of labour:
   (a) Climatic conditions : Extreme climates affect a worker's productivity and efficiency.
   (b) Training and experience : A well-trained and experienced worker performs tasks more effectively.

(iii) Measures to improve efficiency of labour:
   (a) Fair and prompt wages : Ensuring timely payment of wages motivates workers to perform better.

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(b) Improved working conditions : Providing safe and comfortable environments enhances productivity.

267. Discuss five characteristics of capital as a factor of production.

Ans : COMP 2014

Five characteristics of capital:
(i) Man-made : Capital is a produced means of production, such as machinery and equipment.
(ii) Passive factor : It requires the cooperation of labour to be effective in production.
(iii) Highly mobile : Capital can be transferred across locations or industries depending on requirements.
(iv) Flexible supply : The supply of capital can be increased or decreased based on demand.
(v) Depreciation : Capital assets lose value over time due to constant use.

268. (i) Define capital formation.
(ii) Explain five reasons for the low rate of capital formation in India.

Ans : SQP 2016

(i) Capital Formation : It refers to the process of adding to the capital stock of a country over time through savings, investments, and asset creation.
(ii) Reasons for the low rate of capital formation in India:
(a) Low saving ability : Many people in India have low incomes, leaving little room for savings.
(b) Inadequate banking facilities : A lack of accessible financial institutions prevents efficient mobilization of savings.
(c) High taxation : Heavy taxes discourage savings and capital accumulation.
(d) Hoarding habits : People often store their savings at home instead of investing them in productive ventures.
(e) High inflation : Rising prices reduce the purchasing power of money, making it difficult for people to save.

CASE BASED QUESTION

269. By giving valid reasons, explain which of the following will be included in the productivity of land:
(i) Use of organic fertilizers by a farmer.
(ii) Construction of a factory on agricultural land.

Ans : COMP 2024

(i) Included : Use of organic fertilizers enhances soil fertility, directly increasing the productivity of land.
(ii) Not Included : Construction of a factory leads to land being used for non-agricultural purposes, which does not contribute to agricultural productivity.

270. By giving valid reasons, explain which of the following will contribute to the efficiency of labour:
(i) Providing training programs for workers.
(ii) Workers performing repetitive tasks without proper tools.

Ans : SQP 2023

(i) Included : Training programs improve the skills and expertise of workers, enhancing their efficiency.
(ii) Not Included : Repetitive tasks without proper tools lead to fatigue and lower productivity, negatively impacting efficiency.

271. By giving valid reasons, explain which of the following is considered part of physical capital:
(i) Machinery used in a factory.
(ii) Cash reserves held by a business.

Ans : MAIN 2021

(i) Included : Machinery is a tangible asset used in the production process, making it part of physical capital.
(ii) Not Included : Cash reserves are financial capital, not physical capital, as they represent funds rather than tangible assets.

272. By giving valid reasons, explain which of the following demonstrates the role of an entrepreneur:
(i) Setting up a new factory to manufacture eco-friendly products.
(ii) Earning wages by working as a machine operator.

Ans : COMP 2020

(i) Included : Establishing a factory involves risk-taking, innovation, and organization, which are key entrepreneurial functions.
(ii) Not Included : Earning wages does not involve entrepreneurial decision-making or risk-taking; it is an example of labour.

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273. By giving valid reasons, explain which of the following factors will affect the productivity of land:
(i) Irrigation facilities available to farmers.
(ii) Overuse of chemical fertilizers.

Ans : MAIN 2011

(i) Included : Irrigation facilities ensure adequate water supply, improving the productivity of land.
(ii) Not Included : Overuse of chemical fertilizers depletes soil fertility over time, reducing productivity.

274. By giving valid reasons, explain which of the following is an advantage of the division of labour:
(i) Workers performing specialized tasks in a production line.
(ii) Workers handling multiple tasks without specialization.

Ans : COMP 2017

(i) Included : Specialization allows workers to focus on a specific task, improving efficiency and productivity.
(ii) Not Included : Handling multiple tasks without specialization reduces efficiency and leads to lower output quality.

275. By giving valid reasons, explain which of the following contributes to capital formation in an economy:
(i) Savings deposited in a bank by households.
(ii) Expenditure on luxury goods by individuals.

Ans : SQP 2019

(i) Included : Savings deposited in a bank are utilized for investments, contributing to capital formation.
(ii) Not Included : Spending on luxury goods does not result in productive investments, hence it does not contribute to capital formation.

276. By giving valid reasons, explain which of the following represents an entrepreneurial function:
(i) Developing a new product to meet market demand.
(ii) Working as a supervisor in a factory.

Ans : MAIN 2000

(i) Included : Developing a new product demonstrates innovation and risk-taking, which are essential entrepreneurial functions.
(ii) Not Included : Working as a supervisor involves managing operations but does not involve entrepreneurship.

277. Read the extract and answer the following questions.
Sana works at a textile factory where workers specialize in sewing specific parts of garments. This ensures higher output and faster production but often leads to complaints about monotony in tasks.
(i) Name the economic concept described in the extract.
(ii) Explain any four advantages of the above (i) concept.

Ans : SQP 2011

(i) The economic concept described is Division of Labour.
(ii) Four advantages of division of labour are:
(a) Specialization : Workers focus on one specific task, which allows them to develop expertise and perform their tasks efficiently and with high precision.
(b) Increased productivity : Since workers repeatedly perform the same task, they become faster, and the production process becomes more streamlined.
(c) Cost efficiency : Division of labour reduces the time and resources required for production, lowering costs and increasing profit margins.
(d) Time-saving : Time is saved as workers do not need to switch between different tasks, leading to a more continuous and efficient workflow.

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278. Read the extract and answer the following questions.
Rahul has been working on his farm, using advanced irrigation techniques and fertilizers to improve the yield of crops. However, he is still facing issues due to poor soil quality and lack of sufficient sunlight.
(i) Name the factor of production highlighted in the extract.
(ii) Explain any four factors affecting the productivity of the above (i) factor of production.

Ans : COMP 2005

(i) The factor of production highlighted is Land.
(ii) Four factors affecting the productivity of land are:

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(a) Fertility of the land : Naturally fertile land produces better crops. Fertility can be improved using fertilizers, crop rotation, and organic farming techniques.
(b) Irrigation facilities : Availability of water is crucial for consistent crop growth. Lack of irrigation results in crop failure, especially in arid regions.
(c) Climatic conditions : Adequate sunlight, rainfall, and temperature determine land productivity. Unfavorable climatic conditions, like drought or floods, negatively impact output.
(d) Use of technology : Modern farming methods such as precision agriculture and mechanization increase productivity by reducing inefficiencies in land use.

279. Read the extract and answer the following questions.
Arjun has saved a significant amount of money to start a dairy farm. He plans to invest in milking machines, cooling systems, and storage facilities.
(i) Name the factor of production highlighted in the extract.
(ii) Explain any four characteristics of the above (i) factor of production.

Ans : COMP 2001

(i) The factor of production highlighted is Capital.
(ii) Four characteristics of capital are:
(a) Man-made resource : Unlike natural resources like land, capital is created through human effort and investment, such as machinery, tools, and equipment.
(b) Enhances productivity : Capital increases the efficiency of production by enabling the use of advanced machinery, reducing manual labour, and increasing output.
(c) Mobile resource : Capital is not tied to a specific location and can be transferred to different industries or areas where it is needed most.
(d) Subject to depreciation : Capital assets like machines and tools wear out over time and require maintenance or replacement to remain functional.
The effective utilization of capital is essential for driving economic growth and improving production efficiency in any economy.

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280. Read the extract and answer the following questions.
Meera recently started a bakery with her savings. She organizes her workers, manages the business risks, and plans to expand her business by introducing innovative recipes.
(i) Name the factor of production represented by Meera.
(ii) Explain any four functions of the above (i) factor of production.

Ans : MAIN 2013

(i) The factor of production represented by Meera is Entrepreneurship.
(ii) Four functions of an entrepreneur are:
(a) Innovation : Entrepreneurs develop new ideas, products, or services, creating unique market opportunities and competitive advantages. Meera introducing innovative recipes is an example of this function.
(b) Risk-taking : Entrepreneurs bear the uncertainties of running a business, such as financial risks, market competition, and changing customer preferences.
(c) Organization of resources : Entrepreneurs efficiently combine land, labour, and capital to produce goods or services. Meera manages her workers and ensures the bakery functions smoothly.
(d) Decision-making : Entrepreneurs make key decisions, such as product pricing, marketing strategies, and business expansion, which are critical for success.
Entrepreneurs are crucial for economic growth as they create jobs, introduce innovations, and contribute to the overall development of industries.

281. Read the extract and answer the following questions.
Rajesh noticed that his workers in the factory were not completing their tasks on time. After investigation, he realized it was due to poor working conditions and lack of training.
(i) Name the factor of production affected in the extract.
(ii) Explain any four reasons for low efficiency of the above (i) factor in India.

Ans : COMP 2017

(i) The factor of production affected is Labour.
(ii) Four reasons for the low efficiency of Indian labour are:
(a) Lack of education and training : Many

workers are unskilled due to limited access to quality education and technical training, reducing productivity.
(b) Poor health conditions : Malnutrition and inadequate healthcare result in frequent illness and low physical and mental capacity among workers.
(c) Obsolete technology : Many workers rely on outdated tools and techniques, which require more effort and yield lower output compared to advanced machinery.
(d) Unfavourable working conditions : Unsafe and poorly maintained workplaces demotivate workers, affecting their efficiency and job satisfaction.

282. Read the extract and answer the following questions.
Priya and her friends decided to invest their savings in opening a small clothing store. They plan to use the money to purchase raw materials, equipment, and rent a shop.
(i) Name the process described in the extract.
(ii) Explain any four steps involved in the above (i) process.

Ans : MAIN 2011

(i) The process described is Capital Formation.
(ii) Four steps involved in capital formation are:
(a) Savings : Individuals, households, and businesses save a portion of their income, which forms the basis for capital formation.
(b) Mobilization of savings : Financial institutions like banks collect and mobilize these savings, directing them toward productive uses.
(c) Investment in productive assets : The mobilized funds are used to purchase machinery, equipment, and other capital goods that support production.
(d) Increase in productivity : The newly acquired capital enhances the efficiency of production processes, leading to economic growth and development.

283. Read the extract and answer the following questions.
A rural farmer uses outdated tools for farming, resulting in low yields. He also lacks access to irrigation facilities, which further reduces productivity.
(i) Name the factor of production mentioned in the extract.
(ii) Explain any four factors affecting the productivity of the above (i) factor of production.

Ans : SQP 2010

(i) The factor of production mentioned is Land.
(ii) Four factors affecting the productivity of land are:
(a) Fertility of the land : Fertile land produces higher yields. Natural fertility can be enhanced through fertilizers, organic manure, and crop rotation.
(b) Irrigation facilities : Reliable and consistent irrigation ensures that crops receive adequate water, reducing dependence on rainfall.
(c) Climatic conditions : Proper sunlight, temperature, and rainfall are essential for optimal crop growth. Unpredictable weather conditions like droughts or floods reduce productivity.
(d) Use of modern techniques : Adopting advanced farming methods, machinery, and tools increases efficiency and output, making better use of available land.

284. Read the extract and answer the following questions.
Soham decided to train his workers in operating new machinery in his factory. He believes this will help improve their output and ensure the smooth functioning of the business.
(i) Name the factor of production highlighted in the extract.
(ii) Explain any four characteristics of the above (i) factor of production.

Ans : COMP 2015

(i) The factor of production highlighted is Labour.
(ii) Four characteristics of labour are:
(a) Human resource : Labour represents the effort and skills of people involved in production, making it distinct from physical and financial resources.
(b) Dependent on skill : The efficiency and productivity of labour vary based on education, training and experience. Skilled workers contribute more significantly to output.
(c) Perishable : Labour cannot be stored or reused. If not utilized, the potential of a worker's effort is lost forever.

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(d) Mobile : Labour can move from one industry or location to another in search of better opportunities, making it a flexible resource.

285. Read the extract and answer the following questions.

Kavita opened a start-up focusing on eco-friendly products. She raised funds, hired workers, and coordinated their activities while also taking risks to launch her product in the market.

(i) Name the factor of production represented by Kavita.

(ii) Explain any four roles of the above factor of production in economic development.

Ans : SQP 2019

(i) The factor of production represented is Entrepreneurship.

(ii) Four roles of entrepreneurship in economic development are:

(a) Job creation : Entrepreneurs establish businesses, providing employment opportunities across different sectors.

(b) Innovation : They introduce new products and technologies, creating diverse offerings and improving efficiency.

(c) Resource utilization : Entrepreneurs organize and allocate land, labour, and capital effectively to maximize production.

(d) Economic growth : By generating wealth and contributing to GDP, entrepreneurs play a key role in strengthening the economy and fostering industrialization.

Entrepreneurs are essential for sustaining economic progress by promoting innovation and driving growth across industries.

286. Read the extract and answer the following questions.

Manoj used his savings to buy modern machinery for his factory, aiming to increase production and reduce costs. He also plans to invest in training his workers to use the new equipment.

(i) Name the type of capital mentioned in the extract.

(ii) Explain any four characteristics of the above (i) type of capital.

Ans : MAIN 2011

(i) The type of capital mentioned is Physical Capital.

(ii) Four characteristics of physical capital are:

(a) Tangible assets : Physical capital includes machinery, equipment, tools and buildings used in production.

(b) Man-made resource : Unlike land, which is nature-given, physical capital is created through human effort and investment.

(c) Enhances productivity : It supports faster and more efficient production processes by reducing the need for manual effort.

(d) Depreciates over time : Physical capital is subject to wear and tear, requiring regular maintenance and eventual replacement.

287. Read the extract and answer the following questions.

A group of investors pooled their savings to build a factory producing solar panels. They plan to utilize advanced equipment and skilled labour to ensure efficient production and long-term profits.

(i) Name the process described in the extract.

(ii) Explain any four steps involved in the above (i) process.

Ans : COMP 2015

(i) The process described is Capital Formation.

(ii) Four steps involved in capital formation are:

(a) Savings generation : Households and businesses save a portion of their income, creating a reserve of funds.

(b) Mobilization of savings : Financial institutions such as banks and mutual funds collect these savings and make them available for productive purposes.

(c) Investment in capital goods : The mobilized funds are invested in machinery, equipment, and other infrastructure to support production activities.

(d) Improved productivity : The acquired capital enables industries to expand, reduce costs, and improve efficiency, contributing to economic development.

Capital formation is crucial for driving industrialization and supporting technological advancements in any economy.

288. Two farmers, one with irrigated land and the other with dry land, grow the same crop but achieve different outputs. Explain why their productivity differs.

Ans : SQP 2016

(i) Irrigation facilities : The farmer with irrigated land benefits from an adequate water supply, ensuring higher productivity.

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(ii) Soil conditions : Dry land lacks sufficient moisture, leading to reduced crop yields.

289. Two workers in a factory are paid differently despite working the same hours. Explain the reasons for the wage difference.

Ans : MAIN 2010

(i) Skill level : A more skilled worker is likely to earn higher wages due to expertise.
(ii) Efficiency : A worker with higher efficiency produces more output, justifying higher pay.

290. A factory owner invests in new machinery, while another continues with old equipment. Why will their productivity differ?

Ans : COMP 2005

(i) Advanced technology : New machinery increases efficiency and reduces production time.
(ii) Maintenance issues : Old equipment may lead to frequent breakdowns, reducing productivity.

291. Two entrepreneurs start similar businesses, but one succeeds while the other fails. Explain the reasons behind this.

Ans : SQP 2011

(i) Risk management : The successful entrepreneur likely made better decisions regarding market risks.
(ii) Innovation : The use of new ideas and products gives an edge in competitive markets.

292. Two fields of the same size produce different amounts of wheat. Explain the factors responsible for this difference.

Ans : COMP 2016

(i) Fertilizer usage : Proper use of fertilizers enhances crop yield.
(ii) Crop rotation : Following crop rotation practices ensures better soil fertility and productivity.

293. Two workers handle the same task, but one completes it faster than the other. Explain the reasons for this difference in efficiency.

Ans : MAIN 2015

(i) Training : A well-trained worker can complete tasks faster with fewer errors.
(ii) Health and motivation : Better physical and mental health improves performance.

294. Two factories in the same industry generate different levels of profit. Explain the reasons for this variation.

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Ans : SQP 2021

(i) Capital investment : A factory with better machinery and infrastructure operates more efficiently.
(ii) Labour efficiency : Factories with skilled and motivated workers achieve higher output and profits.

295. Two entrepreneurs invest the same amount of capital in their businesses, but one creates more employment opportunities than the other. Explain why.

Ans : COMP 2000

(i) Business model : A labour-intensive business model naturally creates more jobs.
(ii) Industry type : Industries like manufacturing require more manpower than services like IT.

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CHAPTER 2

THEORY OF DEMAND AND SUPPLY

SUMMARY

1. INTRODUCTION

Demand refers to the quantity of a good or service that consumers are both willing and able to purchase at various prices over a specific time period, assuming all other factors remain constant (ceteris paribus). It represents the consumer's desire backed by purchasing power.

2. KEY CHARACTERISTICS OF DEMAND

1. Desire : The wish to own a good or service.
2. Ability to Pay : The financial capacity to buy.
3. Willingness to Pay : The readiness to spend money on the good.
4. Time Frame : The period under consideration.

3. DEMAND SCHEDULE

A tabular representation of the relationship between price and quantity demanded. It shows the quantity of a product demanded by an individual or a group of individuals at specified prices and times.

1. Individual Demand Schedule : A table showing various quantities of a commodity that a single consumer is willing to purchase at different prices during a specific time period.
2. Market Demand Schedule : A tabular statement displaying the quantities of a commodity that all consumers in the market are willing to purchase at various price levels. It is the sum of individual demand schedules for all buyers at each price.

4. DEMAND CURVE

A graphical representation of the demand schedule, showing the relationship between the quantities demanded of a commodity at different price levels during a specific time period.

1. Individual Demand Curve : A curve showing the quantities of a commodity that one particular individual is willing to buy at different possible prices at a specific time.
2. Market Demand Curve : A curve showing the quantities of a commodity that all buyers in the market are willing to purchase at different possible prices at a specific time.

5. DETERMINANTS OF DEMAND

Key factors influencing demand are:

1. The commodity's own price.
2. Prices of related goods (substitutes and complements).
3. Consumer income.
4. Consumer tastes and preferences.
5. Weather conditions.
6. Changes in population.
7. Distribution of income.
8. Expectations of future price changes.
9. Advertising and promotional activities.
10. Number of buyers in the market.

6. TYPES OF DEMAND

1. Price Demand : Reflects the inverse relationship between the price of a commodity and the quantity demanded, assuming other factors remain constant. Expressed as:

   $D_x = f(P_x)$

2. Income Demand : Shows the direct relationship between consumer income and the quantity demanded of a commodity, assuming other factors remain constant. Expressed as:

   $D_x = f(y)$

3. Cross Demand:When the demand for one commodity (Y) changes due to a change in the price of another related commodity (X), it is referred to as cross demand.

   $D_y = f(P_x)$

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7. EFFECTS ON DEMAND

1. Income Effect : Refers to a change in the quantity demanded of a commodity due to changes in the consumer's real income, keeping other factors constant.
2. Substitution Effect : Refers to a change in the quantity demanded of a commodity when its relative price changes compared to a substitute good.
3. Price Effect : Indicates changes in the quantity demanded of a good due to changes in its own price.
4. Cross Price Effect : Represents the impact of a change in the price of one commodity (X) on the demand for another commodity (Y) when they are related goods.

8. LAW OF DEMAND

The law of demand states that, other things being equal, there is an inverse relationship between the price of a good and its quantity demanded. If the price of a commodity falls, its quantity demanded increases, and if the price rises, its quantity demanded decreases.

Exceptions to the Law of Demand :

1 Prestigious Goods : Goods with a high status appeal (e.g., luxury items).
2. Expected Future Price Increases : Demand increases if consumers anticipate higher future prices.
3. Ignorance : Consumers mistakenly associate high price with better quality.
4. Giffen Goods : Inferior goods where demand rises as price increases.
5. Necessities : Essential items that are purchased regardless of price changes.

9. CHANGES IN QUANTITY DEMANDED

9.1 Movement Along the Demand Curve

Based on the law of demand, changes in price cause changes in the quantity demanded of a good, resulting in movements along the demand curve.

Types:

1. Extension in Demand : An increase in quantity demanded due to a decrease in the price of the commodity.
2. Contraction in Demand : A decrease in quantity demanded due to an increase in the price of the commodity.

9.2 Shifts in the Demand Curve

A shift in the demand curve occurs when the quantity demanded changes due to factors other than the price of the good.

Types:

1. Increase in Demand : Caused by favorable changes in factors like income, tastes, or population, shifting the curve to the right.
2. Decrease in Demand : Caused by unfavorable changes in factors, shifting the curve to the left.

10. PRICE ELASTICITY OF DEMAND

Price elasticity of demand measures the responsiveness of the quantity demanded of a commodity to a change in its price. It is calculated using the following formula :

10.1 Degrees of Price Elasticity of Demand

1. Perfectly Elastic Demand : The demand for a commodity is perfectly elastic when any change in price leads to an infinite change in quantity demanded (expands or contracts completely). Graphically, the demand curve is a horizontal line parallel to the X-axis.
2. Perfectly Inelastic Demand : The demand is perfectly inelastic when the quantity demanded remains unchanged regardless of price changes. Graphically, the demand curve is a vertical line parallel to the Y-axis.
3. Unitary Elastic Demand: When the percentage change in quantity demanded is exactly equal to the percentage change in price, the demand is unitary elastic. Graphically, the demand curve forms a rectangular hyperbola, where elasticity at every point equals one.
4. Highly Elastic Demand : Demand is highly elastic when the percentage change in quantity demanded exceeds the percentage change in price. Graphically, the demand curve appears flatter, indicating a greater sensitivity to price changes.
5. Relatively Inelastic Demand : A commodity's demand is considered relatively inelastic when the percentage change in quantity demanded is smaller than the percentage change in price. Graphically, The demand curve is steeper, showing less sensitivity to price changes.

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10.2 Factors Determining the Elasticity of Demand

1. Objective Factors :
   (i) Nature of the Commodity : Necessities tend to have inelastic demand, while luxuries have elastic demand.
   (ii) Existence of Substitutes : More substitutes lead to higher elasticity.
   (iii) Alternative Uses : Products with multiple uses have greater elasticity.
   (iv) Postponement of Consumption : Goods whose consumption can be delayed tend to have elastic demand.
   (v) Joint Demand : Goods that are jointly demanded (e.g., complementary goods) affect each other's elasticity.
2. Subjective Factors :
   (i) Habits of Consumers : Habitual goods (e.g., cigarettes) have inelastic (iii) demand.
   (ii) Changes in Consumer Income : Higher income levels can make demand more elastic for luxury items.
   (iii) Standard of Living : Higher living standards lead to more elastic demand for non-essential goods.
   (iv) Share in Total Expenditure : Goods that take up a small share of the consumer's budget have inelastic demand.
   (v) Class of Buyers : Elasticity may differ across social or economic classes.
3. Social Factors:
   (i) Distribution of National Income : Unequal distribution may reduce elasticity for certain goods.
   (ii) Rationing System : Rationed goods typically have inelastic demand due to limited availability.
4. Price Factors:
   (i) General Price Level : A high overall price level can increase elasticity as consumers become more sensitive to price changes.
   (ii) Effects of Time Element : Demand becomes more elastic over time as consumers adjust their behavior.

10.3 Measurement of Elasticity of Demand

Proportional or Percentage Method : Also referred to as the flux method," this approach measures price elasticity of demand as the ratio of the percentage change in quantity demanded to the percentage change in price.

11. SUPPLY

Refers to the quantity of a commodity that a producer is willing and able to offer for sale at a given price during a specific time period.

11.1 Key Characteristics of Supply

1. Quantity Supplied : The amount producers are prepared to sell.
2. Price Dependency : Supply generally increases with price.
3. Time Frame : The period under consideration.

11.2 Types of Supply

1. Individual Supply : Refers to the supply of a good or service by a single producer.
2. Market Supply : The total supply of a good or service by all producers in the market, obtained by aggregating individual supplies.

12. SUPPLY SCHEDULE

A tabular representation showing the quantities of a commodity that a producer is willing to sell at different price levels during a specified time period.

1. Individual Supply Schedule : Represents the quantity of a commodity that a single producer is willing to supply at various prices over a specific time.
2. Market Supply Schedule : Summarizes the total quantities of a commodity that all producers are willing to supply at different prices during a specific time. It is obtained by horizontally summing individual supply schedules.

13. SUPPLY CURVE

A graphical representation of the supply schedule, illustrating the relationship between price and quantity supplied while keeping all other factors constant.

1. Individual Supply Curve : Represents the supply behavior of a single producer, showing the quantities supplied at different prices.
2. Market Supply Curve : Derived from the horizontal summation of individual supply curves, it shows the total quantity supplied by all producers in the market at different price levels.

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14. FACTORS AFFECTING SUPPLY

1. Price Factors:
   (i) Price of the commodity.
   (ii) Price of related goods.
   (iii) Price of production inputs.
2. Cost-Related Factors:
   (i) Technical knowledge and know-how.
   (ii) Cost of production.
   (iii) Government policies (taxes, subsidies, regulations).
3. Business and Market Goals:
   (i) Goals of the firm (e.g., profit maximization).
   (ii) Number of firms in the industry.
4. Expectations and External Factors:
   (i) Expected changes in the price of the commodity.
   (ii) Changes in government policies.
   (iii) Other macroeconomic factors.

15. LAW OF SUPPLY

The law of supply states that, other factors remaining constant, there is a direct relationship between the price of a commodity and the quantity supplied. When the price increases, the quantity supplied also increases, and vice versa.

16. CHANGES IN QUANTITY SUPPLIED

16.1 Movement Along the Supply Curve

Refers to changes in the quantity supplied due to price changes.
Types:
1. Extension in Supply : When supply increases due to a rise in the price of the commodity, it is called an extension.
2. Contraction in Supply : When supply decreases due to a fall in the price of the commodity, it is called a contraction.

16.2 Shifts in the Supply Curve

Occurs due to changes in factors other than price.
Types:
1. Increase in Supply : A rightward shift in the supply curve, caused by favorable factors like reduced input costs or improved technology.
   Causes of Increase in Supply:
   (i) Reduction in production costs : A fall in the prices of production inputs (e.g., labor, raw materials).
   (ii) Technological Advancements : Improvements in technology leading to more efficient production.
   (iii) Reduction in Government Burden : Lower taxes or subsidies granted to producers.
   (iv) Market Expansion : Increase in the number of firms in the market.
2. Decrease in Supply : A leftward shift in the supply curve, caused by unfavorable factors like higher input costs or stricter government regulations.
   Causes of Decrease in Supply:
   (i) Obsolete Technology : Outdated production methods reducing efficiency.
   (ii) Higher Costs : An increase in the prices of production inputs or substitutes.
   (iii) Market Contraction : A decrease in the number of firms in the market.

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17. ELASTICITY OF SUPPLY

Measures the degree of responsiveness of the quantity supplied to a change in the price of a commodity.

17.1 Degrees of Elasticity of Supply

Elasticity of supply measures the responsiveness of the quantity supplied to changes in price. There are five main degrees of elasticity of supply, each reflecting different levels of responsiveness.
1. Perfectly Elastic Supply occurs when any small change in price results in an infinite change in the quantity supplied. In this case, producers are extremely responsive to price changes, and the supply curve is a horizontal line parallel to the X-axis, indicating that even a negligible price increase or decrease can drastically affect the supply.
2. Greater than Unitary Elastic Supply represents a scenario where the percentage change in quantity supplied exceeds the percentage change in price. This indicates that producers are highly responsive to price changes, leading to significant adjustments in the quantity supplied as prices fluctuate.
3. Unitary Elastic Supply is observed when the percentage change in quantity supplied is exactly equal to the percentage change in price. In this case, the supply curve exhibits a proportional slope, reflecting a balanced and consistent response by producers to price changes.
4. Perfectly Inelastic Supply refers to a situation where the quantity supplied remains constant, regardless of any changes in price. This means that even if prices rise or fall, producers do not adjust the quantity supplied. The supply curve in this case is a vertical line parallel

to the Y-axis, indicating no responsiveness to price changes.

5. Inelastic or Less than Unitary Elastic Supply occurs when the percentage change in quantity supplied is smaller than the percentage change in price. Producers are less responsive in this case, making relatively minor adjustments in supply despite significant price fluctuations. This reflects a steeper supply curve, indicating low sensitivity to changes in price.

17.2 Measurement of Elasticity of Supply

Percentage or Proportionate Method : This method calculates the elasticity of supply as the ratio of the percentage change in quantity supplied to the percentage change in price.

17.3 Factors Influencing Elasticity of Supply

1. Nature of Commodity : Perishable goods often have inelastic supply, while durable goods are more elastic.
2. Cost of Production : Higher production costs reduce supply elasticity.
3. Expectations of Future Prices : If prices are expected to rise, producers may withhold supply, making it inelastic in the short term.
4. Natural Constraints : Availability of resources and climate conditions impact supply elasticity.
5. Technology : Advanced technology increases supply elasticity.

MULTIPLE CHOICE QUESTION

1. The elasticity of demand for school bag will be ..... .
(a) Elastic
(b) Perfectly elastic
(c) Unitary elastic
(d) Inelastic

Ans : MAIN 2024

(d) Inelastic
Inelastic demand occurs when a change in the price of a product or service results in a proportionally smaller change in the quantity demanded. For necessities like school bags, uniforms, and other school supplies, consumers are less sensitive to price changes as these items are essential regardless of price fluctuations.

2. If Coke and Fanta are close substitutes to each other, a rise in price of Coke will lead to ..... for Fant a.
(a) Decrease in demand
(b) Increase in demand
(c) No change in quantity supplied
(d) No change in demand

Ans : COMP 2024

(b) Increase in demand
When Coca-Cola (Coke) and Fanta are close substitutes, an increase in Coke's price will likely result in a higher demand for Fanta. This is because consumers would switch to Fanta as a more affordable alternative to Coke, which has become relatively expensive.

3. The demand for rice by all the people in your area will be called as ..... demand.
(a) Individual
(b) Social
(c) Market
(d) Society

Ans : SQP 2023

(c) Market
The aggregate demand from all individuals in a specific area is termed market demand.

4. The year 2023 was celebrated as 'International Year of Millets' and the government decided to subsidize the production of millets. In such case the supply curve will :
(a) Shift to the right
(b) Shift to the right
(c) Be horizontal
(d) Be vertical

Ans : SQP 2024

(a) Shift to the right
Subsidies reduce production costs for firms, enabling them to produce more output at the same price level. This increase in supply causes the supply curve to shift to the right.

5. With price being same, an increase in the price of inputs will lead to ..... in the supply curve.
(a) Upward movement
(b) Rightward shift
(c) Downward movement
(d) Leftward shift

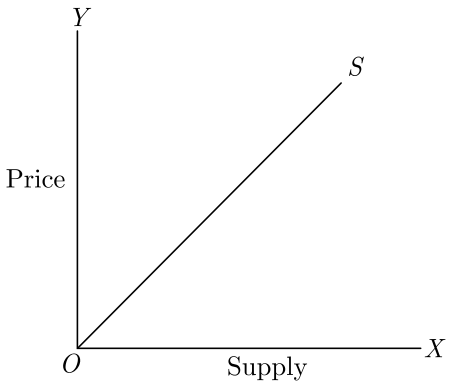
Ans : MAIN 2024

(d) Leftward shift

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When the prices of a good's inputs increase, the production costs for suppliers rise. Consequently, suppliers are less willing or able to provide the same quantity of the good at any given price. This results in a decrease in supply, causing the supply curve to shift to the left.

6. Identify the degree of elasticity of supply from the following graph :



(a) ES > 1 (b) ES < 1
(c) ES $= 1$ (d) ES $= 0$

Ans : COMP 2024

(c) ES $= 1$
When the price elasticity of supply is unit elastic, it implies that the percentage change in price is exactly equal to the percentage change in quantity supplied. This condition corresponds to an elasticity value of 1, resulting in a straight-line supply curve that passes through the origin.

7. Which is an assumption to law of demand?
(a) No change in price of factor input
(b) No change in size and composition of population
(c) No change in number of firms operating in a market
(d) No change in goal of a firm

Ans : SQP 2024

(b) No change in size and composition of population
Demographic changes significantly impact demand patterns. For example, an aging population may increase the demand for healthcare services or leisure activities designed for older individuals. In economic studies, it is assumed that demographic factors remain constant to isolate and analyze the effect of price changes on demand when applying the law of demand in theoretical or empirical research.

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8. The law of demand states that, with an increase in price, there is :
(a) Increased demand
(b) Decreased demand
(c) Increase in quantity demanded
(d) Decrease in quantity demanded

Ans : MAIN 2024

(d) Decrease in quantity demanded
According to the Law of Demand, the quantity demanded of a commodity decreases as its price increases, assuming other factors remain constant.

9. When percentage change in quantity supplied is equal to percentage change in price then it is ..... supply.
(a) Unit elastic
(b) Perfectly elastic
(c) Perfectly inelastic
(d) Normal elastic

Ans : MAIN 2023

(a) Unit elastic
Elasticity of supply = Percentage change in supply ÷ Percentage change in price. When both changes are equal, supply is unit elastic.

10. Printers and ink cartridges are an example of ..... demand.
(a) Competitive
(b) Composite
(c) Joint
(d) Office

Ans : COMP 2023

(c) Joint
Joint demand arises when multiple goods, such as printers and ink cartridges, are used together to fulfill a need.

11. There is a ..... relationship between demand and price.
(a) Direct
(b) Inverse
(c) Positive
(d) Substitute

Ans : SQP 2023

(b) Inverse
As price increases, demand decreases, and as price decreases, demand rises. This inverse relationship occurs because higher prices make goods unaffordable for some consumers, causing them to leave the market.

12. What is meant by derived demand?
(a) The demand is derived from income, tastes, etc., of sellers.
(b) If a thing is needed for producing some other goods, which we actually need.
(c) The demand is derived in beginning economics classes.
(d) The demand is derived from the price elasticity of demand.

Ans : COMP 2023

(b) If a thing is needed for producing some other goods, which we actually need.
Derived demand refers to the demand for a commodity, service, or input that arises because of the demand for another related product. For example, the demand for steel arises from the demand for automobiles.

13. Increase in demand can occur due to :
(a) Increase in price of substitutes
(b) Decrease in price of complementary goods
(c) Increase in income of the consumer
(d) All of these

Ans : SQP 2022

(d) All of these
For normal goods, demand increases with higher income, lower prices of complementary goods, or higher prices of substitutes. These factors collectively lead to a rise in demand.

14. A violation of the Law of Demand occurs when :
(a) Negative income effect is greater than substitution effect.
(b) Substitution effect is negative.
(c) Negative income effect is less than substitution effect.
(d) Income effect is negative.

Ans : MAIN 2021

(a) Negative income effect is greater than substitution effect.
The Law of Demand may be violated when the negative income effect surpasses the substitution effect, such as in the case of Giffen goods, where higher prices lead to increased consumption.

15. Movement along the demand curve illustrates :
(a) Complement effect
(b) Change in quantity demanded
(c) Income effect
(d) Shift in quantity demanded

Ans : COMP 2020

(b) Change in quantity demanded
Movement along the demand curve reflects a change in quantity demanded due to price changes, while all other factors remain constant. It does not involve a shift in the curve.

16. Increase in demand is shown by the demand curve when :
(a) The curve shifts left
(b) Movement along the curve; there is no change
(c) The curve shifts right
(d) Movement along the demand curve

Ans : SQP 2019

(c) The curve shifts right
An increase in demand is represented by a rightward shift of the demand curve. This can be caused by factors such as a rise in consumer income, an increase in the price of substitutes, or a decrease in the price of complementary goods.

17. Demand for a commodity refers to :
(a) Desire for the commodity
(b) Quantity demanded for that commodity
(c) Desire for the commodity at any price
(d) Quantity of the commodity at a certain price during any particular period of time

Ans : MAIN 2017

(d) Quantity of the commodity at a certain price during any particular period of time
Demand for a commodity is the quantity of a good or service that consumers are willing and able to purchase at a specific price within a given time period, assuming other factors remain constant.

18. Demand for a commodity depends on :
(a) Price of related goods
(b) Price of the commodity
(c) Income
(d) All of these

Ans : COMP 2013

(d) All of these
The demand for a commodity is influenced by various factors, including the price of the commodity, consumer income, and the prices of related goods (substitutes and complements).

19. For what type of goods does demand fall when the income of a household rises?
(a) Luxury goods
(b) Necessity goods
(c) Substitute goods
(d) Inferior goods

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Ans : SQP 2018

(d) Inferior goods
Demand for inferior goods decreases as household income rises because these goods have a negative income effect. Consumers tend to shift to superior alternatives as their purchasing power increases.

20. A demand curve is always :
(a) Irregular
(b) Level
(c) Upward sloping
(d) Downward sloping

Ans : MAIN 2014

(d) Downward sloping
The demand curve is almost always downward sloping, indicating that as the price of a good decreases, the quantity demanded increases, assuming other factors remain constant.

21. If the price of a complementary good rises, then the demand curve :
(a) Shifts to the left
(b) Shifts to the right
(c) Moves downwards
(d) Moves upwards

Ans : COMP 2016

(a) Shifts to the left
Complementary goods are consumed together (e.g., cars and fuel). An increase in the price of one reduces the demand for the other, leading to a leftward shift in the demand curve.

22. Determinants of demand include income, expectations, taste, and :
(a) Consumer preferences
(b) Marginal equity
(c) Taxes
(d) Unit elasticity

Ans : SQP 2012

(a) Consumer preferences
Determinants of demand are factors that influence a consumer's willingness and ability to buy a product, such as income, preferences, expectations, and the prices of related goods.

23. A fall in the price of normal goods leads to :
(a) A rise in customer's real income
(b) Fall in demand
(c) Shift in demand curve
(d) A fall in customer's real income

Ans : MAIN 2000

(a) A rise in customer's real income
When the price of normal goods falls, consumers' real income effectively increases, allowing them to buy more of the good or other goods, assuming other factors remain constant. This is referred to as the income effect.

24. If the price of inferior goods, like bajra, falls, the demand :
(a) Remains constant
(b) Reduces
(c) Increases
(d) None of the above

Ans : COMP 2015

(c) Increases
Inferior goods may experience an increase in demand when their prices fall, as they become more affordable to lower-income consumers. However, this relationship holds only up to a certain threshold, after which substitutes may be preferred.

25. A substitute good is a good :
(a) Of higher quality than another good.
(b) That is not used in place of one another.
(c) That can be used in place of one another.
(d) Of lower quality than another good.

Ans : SQP 2021

(c) That can be used in place of one another.
Substitute goods are similar or comparable products that can replace each other to fulfill the same consumer needs. These goods allow the consumer to switch from one to another, depending on price or preference. For example, tea and coffee serve as substitutes for each other.

26. Milk can be put to several uses; therefore, it is called a _____ good.
(a) Composite
(b) Autonomous
(c) Direct
(d) Indirect

Ans : MAIN 2021

(a) Composite
Composite goods are those that can be utilized for multiple purposes or applications. Milk, for example, can be used to produce various products such as cheese, butter, and yogurt, making it a composite good.

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27. A differentiated product has :
(a) Many perfect substitutes
(b) No close substitutes
(c) Close but not perfect substitutes
(d) No substitutes of any kind

Ans : COMP 2022

(c) Close but not perfect substitutes
Differentiated products are unique and stand out in the market due to distinct features like quality, brand, or design. While these products have substitutes, the alternatives are not perfect replacements. For example, branded clothes are differentiated products.

28. _____ goods refer to those products which are identical in quality, shape, size, color, etc.
(a) Heterogeneous
(b) Homogeneous
(c) Differentiated
(d) Slightly differentiated

Ans : SQP 2022

(b) Homogeneous
Homogeneous goods are uniform in all respects, such as quality, size, shape, and appearance. These goods are interchangeable, with no noticeable differences between producers or brands. Examples include basic commodities like salt and sugar.

29. The demand for _____ goods will increase with an increase in consumer income.
(a) Inferior goods
(b) Substitute goods
(c) Normal goods
(d) Complementary goods

Ans : MAIN 2022

(c) Normal goods
Normal goods have a positive income effect, meaning their demand rises as consumer income increases. Consumers tend to buy more of these goods because they are associated with higher living standards or improved purchasing power.

30. Price of the commodity and quantity supplied of that commodity is _____ related.
(a) Cross
(b) Inversely
(c) Negatively
(d) Directly

Ans : COMP 2021

(d) Directly
As the price of a commodity increases, the profit margin for producers also rises. This motivates producers to increase the quantity supplied, assuming other factors remain constant.

31. An increase in consumer income will cause a movement along the demand curve." Select the appropriate option :
(a) True
(b) False

Ans : MAIN 2010

(b) False
An increase in consumer income causes a shift in the demand curve, not a movement along it, as it changes the overall demand for the good rather than just the quantity demanded at a specific price.

32. What does the supply of a commodity represent?
(a) The stock available for sale
(b) The total stock of goods
(c) The quantity of goods offered for sale at a specific price during a given time
(d) The actual production of goods

Ans : SQP 2011

(c) The quantity of goods offered for sale at a specific price during a given time
Supply refers to the quantity of a commodity that a producer is willing and able to offer for sale at a specific price during a given time period.

33. How does a typical supply curve slope?
(a) Downwards
(b) Upwards
(c) Both (a) and (b)
(d) None of the above

Ans : SQP 2004

(b) Upwards
A supply curve typically slopes upwards from left to right, indicating a direct relationship between price and quantity supplied.

34. If the market supply curve shifts to the right, what is the most likely cause?
(a) A successful advertising campaign promoting the product
(b) A rise in the price of raw materials
(c) Introduction of new technology that reduces production costs
(d) Imposition of a tax on the commodity by the government

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Ans : MAIN 2009

(c) Introduction of new technology that reduces production costs
A rightward shift in the supply curve occurs when production costs decrease due to advancements in technology, enabling producers to supply more at the same price.

35. How does an increase in tax on a commodity affect its supply?
(a) It fixes supply.
(b) It does not change supply.
(c) It increases supply.
(d) It decreases supply.

Ans : COMP 2005

(d) It decreases supply.
Higher taxes increase production costs, reducing the profit margins for producers. This leads to a reduction in the quantity of goods supplied.

36. What is the willingness and ability of a producer to supply goods called?
(a) Quantity demanded
(b) Quantity consumed
(c) Quantity supplied
(d) Production

Ans : SQP 2006

(c) Quantity supplied
Supply refers to a producer's willingness and ability to offer goods or services for sale at various prices over a given period.

37. Which of the following results in an increase in supply without a change in price?
(a) Rise in supply
(b) Contraction in supply
(c) Expansion in supply
(d) Fall in supply

Ans : COMP 2007

(c) Expansion in supply
Expansion in supply refers to an increase caused by factors such as improved technology or reduced production costs, independent of price changes.

38. What does an increase or decrease in supply signify?
(a) A shift in the supply curve
(b) Movement along the same supply curve
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Ans : MAIN 2008

(a) A shift in the supply curve
A shift in the supply curve occurs when factors other than price such as production costs or government policies change, affecting supply.

39. Which factors affect the supply of a commodity?
(a) The price of related goods
(b) The price of the commodity itself
(c) Government policies
(d) All of the above

Ans : COMP 2003

(d) All of the above
Supply is influenced by multiple factors, including the price of the commodity, prices of related goods, and government policies like taxation or subsidies.

40. How is the supply of a commodity categorized?
(a) As a wholesale concept
(b) As a flow concept
(c) As a stock concept
(d) Both (b) and (c)

Ans : SQP 2002

(d) Both (b) and (c)
Supply is both a flow concept, as it represents the quantity offered per unit of time, and a stock concept, as it depends on the stock available for sale.

41. If the number of firms producing a particular commodity increases, the market supply of that commodity will :
(a) Increase
(b) Decrease
(c) Remain constant
(d) Become negative

Ans : MAIN 2021

(a) Increase
One of the key determinants of market supply is the number of firms in the market. As the number of firms producing a commodity increases, the overall supply of that commodity in the market also increases.

42. When producers expect a price rise in the future, they would like to _____ the present supply of their commodities.
(a) Increase
(b) Reduce
(c) Keep constant
(d) Stop

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Ans : COMP 2021

(b) Reduce
When producers anticipate a price rise in the future, they tend to reduce their current supply in order to stockpile goods. This allows them to increase supply and earn higher profits when the expected price rise occurs.

43. An increase in the price of apples leads to a decrease in the quantity demanded. This represents a movement along the demand curve." Select the appropriate option :
(i) True
(ii) False

Ans : SQP 2001

(i) True
A movement along the demand curve occurs when there is a change in quantity demanded due to a change in the price of the good, keeping all other factors constant.

44. The law of supply states that when the price of a good decreases, the quantity supplied increases, ceteris paribus." Select the appropriate option :
(i) True
(ii) False

Ans : COMP 2020

(ii) False
The law of supply states that there is a direct relationship between price and quantity supplied, meaning quantity supplied increases with an increase in price, ceteris paribus.

45. A Veblen good is an exception to the law of demand." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2024

(i) True
Veblen goods, like luxury items, are exceptions to the law of demand because higher prices may increase their desirability as status symbols.

46. Market demand is the summation of all individual demand curves." Select the appropriate option :
(i) True
(ii) False

Ans : COMP 2023

(i) True
Market demand represents the total quantity demanded by all consumers in the market at each price level, which is derived by summing individual demand curves.

47. Price elasticity of demand measures the responsiveness of demand to changes in price, calculated using the percentage method." Select the appropriate option :
(i) True
(ii) False

Ans : SQP 2022

(i) True
Price elasticity of demand is calculated as the percentage change in quantity demanded divided by the percentage change in price, making it a standard method of measurement.

48. Elasticity of supply is lower for agricultural products due to their dependence on natural factors." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2021

(i) True
Agricultural supply is less elastic because production is influenced by natural conditions like weather, which limits immediate adjustments to changes in price.

49. Elastic demand refers to a situation where a small change in price leads to a proportionately larger change in quantity demanded." Select the appropriate option :
(i) True
(ii) False

Ans : SQP 2019

(i) True
Elastic demand indicates high responsiveness of quantity demanded to price changes, with elasticity greater than 1.

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50. **Statement 1 :** The law of demand states that other things being equal, as the price of a commodity falls, its quantity demanded rises.
Statement 2 : A shift in the demand curve occurs only when the price of the good changes.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2017

(a) Statement 1 is true and Statement 2 is false.

The law of demand highlights the inverse price-demand relationship. Shifts in the demand curve occur due to factors like income, preferences, or prices of substitutes, not due to price changes of the good itself.

51. **Statement 1 :** Individual demand curve represents the demand of a single consumer for a good.
Statement 2 : Market demand curve is derived by horizontally summing the individual demand curves of all consumers in the market.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2013

(c) Both Statements 1 and 2 are true.
Individual demand represents a single consumer, while the market demand aggregates demand from all consumers. Horizontal summation of individual curves derives the market demand curve, reflecting total market demand at different prices.

52. **Statement 1 :** Elasticity of demand measures the responsiveness of quantity demanded to a change in price.
Statement 2 : Price elasticity of demand can be calculated using the percentage method, which compares the percentage change in quantity demanded to the percentage change in price.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2018

(c) Both Statements 1 and 2 are true.
Elasticity of demand evaluates the sensitivity of demand to price changes. The percentage method compares relative changes in quantity demanded and price, providing a measurable elasticity coefficient.

53. **Statement 1 :** Supply refers to the quantity of a good or service that producers are willing and able to offer for sale at different prices during a given time period.
Statement 2 : A movement along the supply curve occurs when there is a change in supply due to factors other than price.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2014

(a) Statement 1 is true and Statement 2 is false.
A movement along the supply curve results from price changes. Factors like technology or production costs lead to a shift in the supply curve, indicating a new supply relationship.

54. **Statement 1 :** Elasticity of supply is determined by factors such as time period and availability of resources.
Statement 2 : Elasticity of supply is always greater than elasticity of demand.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2016

(a) Statement 1 is true and Statement 2 is false.
Elasticity of supply depends on time and resources. However, elasticity of supply is not always greater than elasticity of demand, as it varies by industry and market conditions.

55. **Statement 1 :** The law of supply states that other things being equal, an increase in price leads to an increase in the quantity supplied.
Statement 2 : A supply schedule shows the relationship between price and the quantity supplied for a good.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2012

(c) Both Statements 1 and 2 are true.
The law of supply reflects a direct price-supply relationship. A supply schedule tabulates price and quantity data, helping visualize the law of supply on a supply curve.

56. **Statement 1 :** Movement along the demand curve occurs when the price of a good changes.
Statement 2 : A shift in the demand curve occurs due to changes in factors like income or the price of related goods.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

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Ans : COMP 2000

(c) Both Statements 1 and 2 are true.
A movement along the demand curve reflects price changes, while a shift happens due to external factors like changes in consumer income or preferences.

57. **Statement 1 :** Elasticity of demand is always the same for all goods, regardless of the type of product.
Statement 2 : Necessities tend to have lower price elasticity of demand compared to luxuries.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2015

(b) Statement 1 is false and Statement 2 is true.
Elasticity varies by product type. Necessities typically exhibit lower elasticity since demand remains stable, whereas luxuries have higher elasticity due to greater sensitivity to price changes.

58. Ms. Anita explained that 'the quantity of a product consumers are willing and able to buy at various prices during a given time period' is defined as what?
(a) Supply
(b) Demand
(c) Elasticity of demand
(d) Market price

Ans : COMP 2011

(b) Demand
Demand refers to the willingness and ability of consumers to purchase a product at different price levels over a specific period, influenced by factors like income and preferences.

59. Mr. Ramesh described the 'graphical representation showing the relationship between the price of a good and the quantity supplied by producers.' What is this concept called?
(a) Demand curve
(b) Supply curve
(c) Market schedule
(d) Individual supply schedule

Ans : SQP 2009

(b) Supply curve
A supply curve graphically represents the quantity of goods producers are willing to supply at various price points, typically sloping upward.

60. Ms. Priya discussed the situation when 'an increase in consumer income causes a shift of the demand curve to the right.' What is this called?
(a) Movement along the demand curve
(b) Shift in demand curve
(c) Law of demand
(d) Elasticity of demand

Ans : MAIN 2005

(b) Shift in demand curve
A shift in the demand curve occurs when non-price factors, like consumer income, preferences, or the price of related goods, cause demand to increase or decrease at all price levels.

61. Mr. Arvind explained a situation where 'goods with no close substitutes tend to have less sensitivity to price changes.' What type of demand elasticity does this represent?
(a) Elastic demand
(b) Inelastic demand
(c) Unitary elastic demand
(d) Perfectly elastic demand

Ans : COMP 2006

(b) Inelastic demand
Inelastic demand occurs when the quantity demanded of a product changes minimally with price changes, often due to the lack of substitutes or necessity of the good.

62. Ms. Sharma mentioned that 'the responsiveness of the quantity supplied of a product to changes in its price is expressed as a percentage.' What is this called?
(a) Price elasticity of supply
(b) Price elasticity of demand
(c) Law of supply
(d) Supply curve movement

Ans : SQP 2007

(a) Price elasticity of supply
Price elasticity of supply measures how much the quantity supplied of a good changes in response to price changes, calculated as a percentage change in quantity supplied divided by the percentage change in price.

63. Mr. Suresh taught that 'when the price of a good increases, its demand decreases, provided all other factors remain constant.' What is this principle known as?
(a) Law of demand
(b) Law of supply
(c) Elasticity of demand
(d) Demand curve shift

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Ans : MAIN 2004

(a) Law of demand
The law of demand states that there is an inverse relationship between price and quantity demanded, assuming other factors influencing demand remain unchanged.

64. Ms. Kavita explained that 'the quantity of a good consumers are willing to buy changes due to a change in the good's price, but other factors remain constant.' What does this represent?
(a) Shift in demand curve
(b) Movement along the demand curve
(c) Elasticity of demand
(d) Law of supply

Ans : COMP 2008

(b) Movement along the demand curve
A movement along the demand curve occurs when the quantity demanded changes due to price changes while other factors like income or preferences remain constant.

65. Mr. Anil discussed goods for which 'an increase in price leads to an increase in demand, as seen with certain inferior goods consumed by low-income groups.' What are these goods called?
(a) Normal goods
(b) Giffen goods
(c) Complementary goods
(d) Substitute goods

Ans : SQP 2003

(b) Giffen goods
Giffen goods are exceptions to the law of demand. For these inferior goods, higher prices may increase demand because they make substitutes relatively unaffordable.

66. Ms. Rekha mentioned that 'determinants like technology, input costs, and taxes influence the willingness of producers to sell a product.' What is this concept associated with?
(a) Demand determinants
(b) Supply determinants
(c) Elasticity of supply
(d) Price elasticity of demand

Ans : MAIN 2002

(b) Supply determinants
Determinants of supply, such as production costs, technology, and government policies, affect the quantity of goods producers are willing to supply at different price levels.

67. Mr. Sharma highlighted that 'a good whose demand increases when the price of another good decreases is known as what type of good?'
(a) Substitute good
(b) Complementary good
(c) Giffen good
(d) Inferior good

Ans : COMP 2001

(b) Complementary good
Complementary goods are used together, so a decrease in the price of one increases the demand for the other, such as cars and fuel.

68. Ms. Sonia explained that 'when the price of a luxury good increases slightly, consumers tend to stop buying it, causing a significant drop in demand.' What type of demand elasticity does this represent?
(a) Elastic demand
(b) Inelastic demand
(c) Unitary elastic demand
(d) Perfectly inelastic demand

Ans : SQP 2010

(a) Elastic demand
Elastic demand occurs when a slight price change significantly affects the quantity demanded, typically for non-essential or luxury goods with many substitutes.

69. Other things being equal, as the price of a commodity falls, its quantity demanded rises."
Identify the economic law being described.
(a) Law of Supply.
(b) Law of Demand.
(c) Law of Diminishing Marginal Utility.
(d) Law of Increasing Returns to Scale.

Ans : MAIN 2024

(b) Law of Demand.
The Law of Demand describes the inverse relationship between price and quantity demanded, assuming other factors remain constant. As price falls, consumers buy more; as price rises, consumers buy less.

70. If the price of sugar increases from ₹40 to ₹50 per kilogram, the demand for jaggery increases."
Identify the type of demand illustrated.
(a) Derived demand.
(b) Joint demand.
(c) Competitive demand.
(d) Complementary demand.

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Ans : COMP 2023

(c) Competitive demand.
Competitive demand arises when a price increase for one product (sugar) leads consumers to switch to a cheaper substitute (jaggery), illustrating the competition between similar goods.

71. The quantity of rice demanded remains the same even when its price increases significantly."
Which exception to the law of demand does this situation represent?
(a) Veblen goods.
(b) Necessities.
(c) Giffen goods.
(d) Speculative goods.

Ans : SQP 2022

(b) Necessities.
Necessities like rice have inelastic demand because consumers consider them essential. Changes in price do not significantly affect quantity demanded, making them an exception to the law of demand.

72. An increase in the price of coffee leads to a decrease in its quantity demanded, represented by a movement along the demand curve."
What does this situation illustrate?
(a) Shift in demand curve.
(b) Movement along the demand curve.
(c) Change in supply curve.
(d) Movement along the supply curve.

Ans : MAIN 2021

(b) Movement along the demand curve.
A price change of a good causes a movement along the demand curve. It reflects a change in quantity demanded, not a shift in the demand curve.

73. The elasticity of demand for a luxury car is higher than the elasticity of demand for rice."
Which of the following factors is responsible for this difference?
(a) Nature of the good.
(b) Availability of substitutes.
(c) Income of the consumer.
(d) Time period.

Ans : COMP 2020

(a) Nature of the good.
Luxury goods are non-essential and have elastic demand, while necessities like rice are essential and have inelastic demand. The nature of the good influences demand elasticity.

74. If the price of a product increases by 10%, and its quantity supplied increases by 20%, the price elasticity of supply is:"
(a) Greater than 1.
(b) Less than 1.
(c) Equal to 1.
(d) Zero.

Ans : SQP 2019

(a) Greater than 1.
When the percentage change in quantity supplied exceeds the percentage change in price, supply is elastic, with elasticity greater than one, showing high responsiveness to price changes.

75. An increase in the price of smart phones leads to an increase in the quantity supplied, represented by a movement along the supply curve."
What does this scenario indicate?
(a) Movement along the supply curve.
(b) Shift in the supply curve.
(c) Movement along the demand curve.
(d) Shift in the demand curve.

Ans : MAIN 2017

(a) Movement along the supply curve.
A change in the product's price causes movement along the supply curve. It reflects changes in quantity supplied, without altering other supply determinants.

76. A fall in the price of cars leads to an increase in the demand for petrol."
Identify the type of demand illustrated.
(a) Competitive demand.
(b) Complementary demand.
(c) Joint demand.
(d) Derived demand.

Ans : COMP 2013

(b) Complementary demand.
Complementary demand arises when goods are consumed together. A fall in the price of cars increases their sales, which subsequently increases the demand for petrol, as the two goods are used together.

77. The demand for luxury vacations decreases significantly during a recession."
Which factor is responsible for this change in demand?
(a) Price of the good.
(b) Income of consumers.
(c) Taste and preference.
(d) Price of substitutes.

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Ans : SQP 2018

(b) Income of consumers.
Income significantly impacts the demand for luxury goods. During a recession, reduced disposable income decreases demand for non-essential items like luxury vacations, reflecting income as a key determinant of demand.

78. The demand curve shifts to the right when consumer preferences favor electric vehicles."
What does this situation represent?
(a) Movement along the demand curve.
(b) Shift in the demand curve.
(c) Movement along the supply curve.
(d) Shift in the supply curve.

Ans : MAIN 2014

(b) Shift in the demand curve.
A shift in the demand curve occurs when non-price factors, such as consumer preferences, change. Here, increased preference for electric vehicles increases demand, shifting the curve rightward.

79. Farmers supply fewer crops during a drought despite higher prices."
Which factor affecting supply is illustrated in this scenario?
(a) Government policies.
(b) Cost of production.
(c) Natural factors.
(d) Price of the good.

Ans : COMP 2016

(c) Natural factors.
Natural factors, like droughts, impact agricultural supply. Even with higher prices, farmers cannot increase supply due to poor crop yield caused by unfavorable natural conditions.

80. Salt has a lower price elasticity of demand compared to soft drinks."
Which factor contributes to this difference?
(a) Availability of substitutes.
(b) Proportion of income spent.
(c) Nature of the good.
(d) Time period.

Ans : SQP 2012

(c) Nature of the good.
Salt is a necessity, so its demand is inelastic, as consumers continue purchasing regardless of price changes. Soft drinks are non-essential, making their demand more elastic and sensitive to price fluctuations.

81. **Assertion (A) :** The demand curve slopes downward from left to right, indicating an inverse relationship between price and quantity demanded.
Reason (R) : As the price of a good increases, the purchasing power of consumers increases, leading to a higher quantity demanded.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2000

(c) A is true, but R is false.
The demand curve reflects the inverse relationship between price and quantity demanded. However, when prices increase, purchasing power decreases, leading to lower demand, making the reason incorrect.

82. **Assertion (A) :** A shift in the demand curve occurs when factors like income, tastes, or the price of related goods change.
Reason (R) : A shift in the demand curve happens because the quantity demanded changes at every price level.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2015

(a) Both A and R are true, and R is the correct explanation of A.
Changes in factors like income or tastes cause a demand curve shift, altering quantity demanded across all price levels. Thus, the reason correctly explains the assertion.

83. **Assertion (A) :** A Giffen good is an exception to the law of demand.
Reason (R) : For Giffen goods, a rise in price leads to a rise in demand due to the income effect outweighing the substitution effect.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

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Ans : SQP 2011

(a) Both A and R are true, and R is the correct explanation of A.
Giffen goods violate the law of demand as higher prices reduce consumer purchasing power for alternatives, making them purchase more of the Giffen good despite its higher price.

84. **Assertion (A) :** Movement along the demand curve occurs due to a change in the price of the good itself.
Reason (R) : A movement along the demand curve is caused by a shift in consumer preferences.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2009

(c) A is true, but R is false.
Movement along the demand curve is only caused by a price change, not shifts in preferences or other factors, which cause the curve itself to shift.

85. **Assertion (A) :** Determinants like income and the price of substitutes can shift the supply curve.
Reason (R) : A change in supply occurs when factors other than price, such as technology or input costs, influence production.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2005

(d) A is false, but R is true.
Income and substitute prices are determinants of demand, not supply. However, factors like technology or input costs can shift the supply curve, making the reason correct.

86. Study the relationship in the first pair of terms and complete the second pair.
(i) Demand : Inverse relationship with price.
(ii) Supply : _____ relationship with price.
(a) Constant
(b) Inverse
(c) Direct
(d) Unchanging

Ans : SQP 2006

(c) Direct
The law of supply states that as the price of a good increases, its supply also increases due to higher profit incentives for producers, showing a direct relationship.

87. Study the relationship in the first pair of terms and complete the second pair.
(i) Market Demand Curve : Horizontal summation of individual demand curves.
(ii) Market Supply Curve : _____ summation of individual supply curves.
(a) Vertical
(b) Direct
(c) Upward-sloping
(d) Horizontal

Ans : MAIN 2007

(d) Horizontal
The market supply curve is derived by horizontally summing the individual supply curves, showing the total quantity supplied by all producers at various price levels.

88. Study the relationship in the first pair of terms and complete the second pair.
(i) Elastic Demand : Greater than one.
(ii) Inelastic Supply : _____.
(a) Less than one
(b) Equal to one
(c) Greater than one
(d) Constant

Ans : COMP 2004

(a) Less than one
Inelastic supply means the percentage change in quantity supplied is less than the percentage change in price, resulting in an elasticity value less than one.

89. Study the relationship in the first pair of terms and complete the second pair.
(i) Movement along the Demand Curve : Caused by a price change.
(ii) Shift of the Supply Curve : Caused by _____.
(a) Demand changes
(b) Price changes
(c) Non-price factors
(d) Government policies

Ans : SQP 2008

(c) Non-price factors

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A shift of the supply curve occurs when non-price factors like technology, input costs, or taxes change the quantity supplied at all price levels.

90. Study the relationship in the first pair of terms and complete the second pair.
(i) Normal Goods : Demand increases with income.
(ii) Inferior Goods : Demand _____ with income.
(a) Increases
(b) Remains constant
(c) Decreases
(d) Doubles

Ans : MAIN 2003

(c) Decreases
Inferior goods see reduced demand as consumer income increases since consumers shift to superior alternatives, demonstrating an inverse relationship with income.

91. Study the relationship in the first pair of terms and complete the second pair.
(i) Elasticity of Demand : Responsiveness of demand to price changes.
(ii) Elasticity of Supply : Responsiveness of supply to _____.
(a) Demand changes
(b) Cost changes
(c) Price changes
(d) Income changes

Ans : COMP 2002

(c) Price changes
Elasticity of supply measures how responsive the quantity supplied is to changes in price, reflecting producers' willingness to adjust production levels based on price fluctuations.

92. Study the relationship in the first pair of terms and complete the second pair.
(i) Luxury Goods : High elasticity of demand.
(ii) Necessities : _____ elasticity of demand.
(a) Zero
(b) Low
(c) High
(d) Infinite

Ans : SQP 2001

(b) Low
Necessities have low elasticity of demand because their consumption remains relatively constant regardless of price changes, as they are essential for daily living.

93. Study the relationship in the first pair of terms and complete the second pair.
(i) Giffen Goods : Demand increases with price.
(ii) Normal Goods : Demand _____ with price.
(a) Increases
(b) Decreases
(c) Remains constant
(d) Doubles

Ans : MAIN 2010

(b) Decreases
Normal goods follow the law of demand, where demand decreases as price increases, reflecting the consumer's preference for affordable alternatives when prices rise.

94. Study the relationship in the first pair of terms and complete the second pair.
(i) Supply Curve Movement : Caused by price change.
(ii) Demand Curve Movement : Caused by _____.
(a) Price change
(b) Income change
(c) Advertisement
(d) Taste change

Ans : COMP 2024

(a) Price change
Movement along the demand curve occurs due to price changes, whereas non-price factors, like income or tastes, shift the curve entirely.

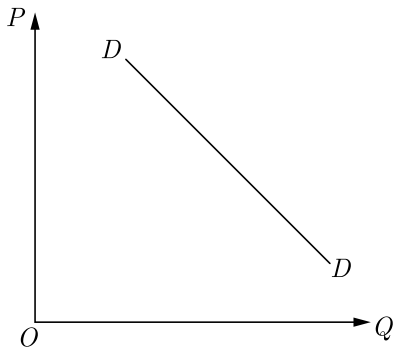
95. Study the relationship in the first pair of terms and complete the second pair.
(i) Price Elasticity of Demand (PED) : Negative sign.
(ii) Price Elasticity of Supply (PES) : _____ sign.
(a) Positive
(b) Negative
(c) Neutral
(d) Zero

Ans : SQP 2023

(a) Positive
Price elasticity of supply is positive because higher prices incentivize producers to supply more goods, reflecting a direct relationship between price and quantity supplied.

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96. What does the demand curve in the given figure represent?

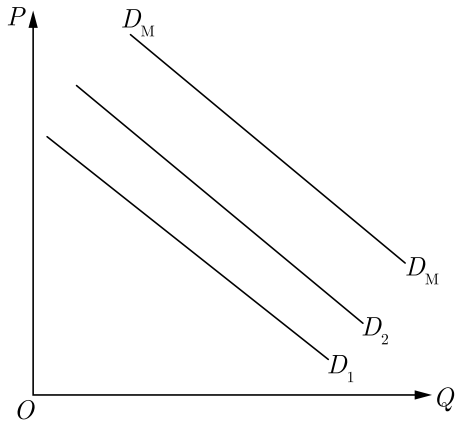


(a) Law of Supply
(b) Law of Demand
(c) Elastic Supply Curve
(d) Perfectly Inelastic Demand Curve

Ans : MAIN 2022

(b) Law of Demand
The given demand curve shows an inverse relationship between price (P) and quantity demanded (Q). As the price decreases, the quantity demanded increases, and vice versa. This represents the Law of Demand, which states that other things being equal, the quantity demanded of a good increases as its price falls. The downward slope of the curve confirms this principle.

97. What does the set of demand curves in the figure represent?

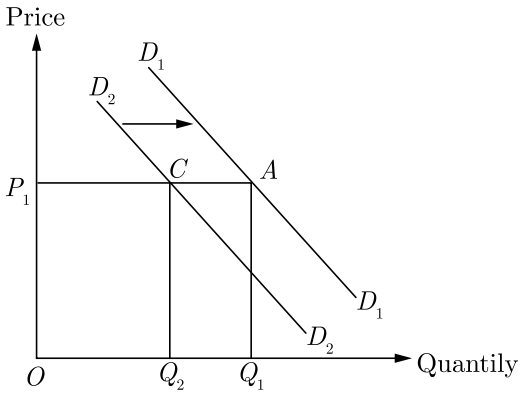


(a) Changes in supply
(b) Changes in demand due to price variations
(c) Shifts in demand curve
(d) Elasticity of demand

Ans : COMP 2021

(c) Shifts in demand curve
The figure shows multiple demand curves (D_1, D_2, and D_M), which represent shifts in the demand curve. These shifts occur due to changes in factors other than price, such as income, preferences, prices of related goods, or population. An outward shift (from D_1 to D_M) indicates an increase in demand, while an inward shift would indicate a decrease.

98. What economic concept is represented in the figure?

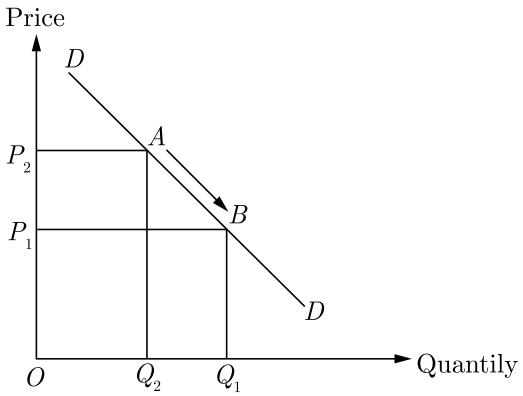


(a) Rightward shift of the demand curve
(b) Leftward shift of the demand curve
(c) Contraction of demand
(d) Decrease in quantity demanded

Ans : MAIN 2019

(b) Leftward shift of the demand curve
The figure shows a shift in the demand curve from D_1 to D_2, indicating a decrease in demand at the same price level (P_1). The quantity demanded decreases from Q_1 to Q_2. This is a leftward shift of the demand curve, which typically occurs due to unfavorable factors like reduced income, changes in preferences, or an increase in the price of complementary goods.

99. What economic concept does the figure demonstrate?



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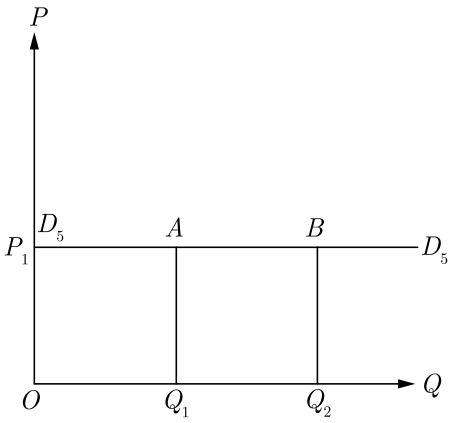
(a) Movement along the demand curve
(b) Extension of demand
(c) Contraction of demand
(d) Shift of the demand curve

Ans : MAIN 2017

(b) Extension of demand
The figure demonstrates an extension of demand, which occurs when the quantity demanded increases due to a decrease in the price of the good. As the price falls from P_2 to P_1, the quantity demanded rises from Q_1 to Q_2. This movement from point A to point B along the same demand curve (D) reflects the law of demand, specifically an increase in demand due to a reduction in price, which is termed extension of demand.

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100. What type of demand does the figure represent?

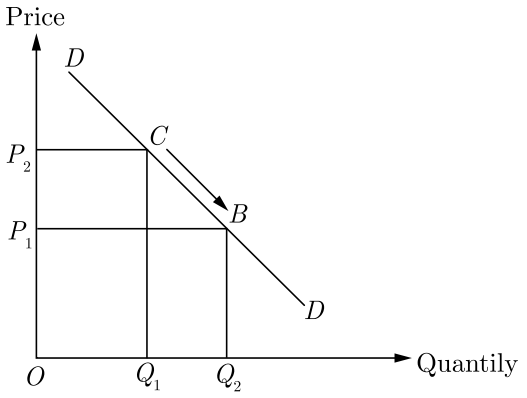


(a) Perfectly elastic demand
(b) Perfectly inelastic demand
(c) Unit elastic demand
(d) Relatively elastic demand

Ans : SQP 2018

(a) Perfectly elastic demand
The figure represents perfectly elastic demand, where the demand curve (D_5) is horizontal. This indicates that consumers are willing to buy any quantity (Q_1, Q_2, etc.) of the good at a fixed price (P_1). If the price changes even slightly, the quantity demanded will drop to zero. This type of demand is often associated with highly competitive markets where identical products are available at a fixed market price.

101. What economic concept does the figure demonstrate?



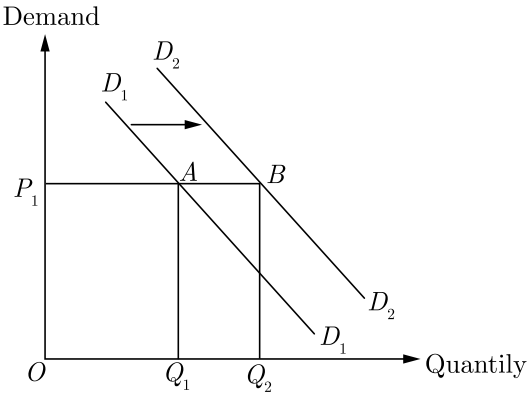
(a) Extension of demand
(b) Contraction of demand
(c) Increase in demand
(d) Shift of the demand curve

Ans : COMP 2013

(b) Contraction of demand
The figure shows a contraction of demand, which occurs when the quantity demanded decreases due to an increase in the price of the good. As the price rises from P_1 to P_2, the quantity demanded decreases from Q_2 to Q_1, moving along the same demand curve (D) from point B to point A. This movement illustrates the law of demand, where a higher price leads to a lower quantity demanded, referred to as contraction of demand.

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102. What economic concept does the figure illustrate?



(a) Movement along the demand curve
(b) Expansion and contraction of demand
(c) Increase in quantity demanded
(d) Rightward shift of the demand curve

Ans : SQP 2020

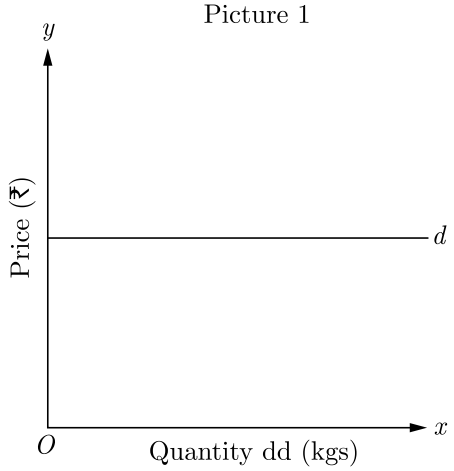
(d) Rightward shift of the demand curve
The figure shows two demand curves, D_1 and D_2, with a shift from D_1 to D_2. At the same price level (P_1), the quantity demanded increases from

Q_1 to Q_2. This represents a rightward shift of the demand curve, which occurs when there is an increase in demand due to factors other than price, such as higher income, favorable changes in tastes, or increased population.

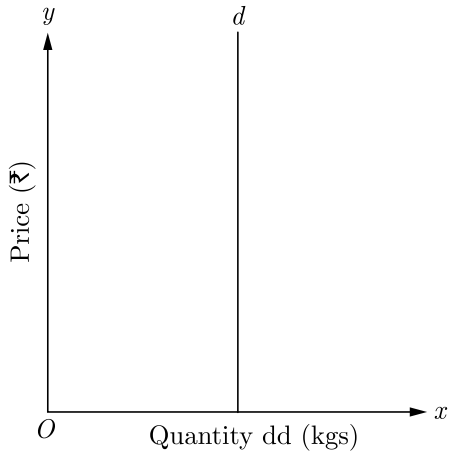
TWO MARKS QUESTIONS

103.

Picture 1



Picture 2



Analyze the given graphs and identify the type of elasticity of demand of :

(i) Picture 1

(ii) Picture 2

Ans : MAIN 2024

(i) Picture 1 : Perfectly Elastic Demand Perfectly elastic demand describes a situation where the quantity demanded of a good or service changes infinitely in response to even the smallest change in price.

(ii) Picture 2 : Perfectly Inelastic Demand Perfectly inelastic demand refers to a scenario where the quantity demanded of a good or service remains unchanged regardless of price fluctuations. In this case, consumers are entirely unresponsive to price changes and will continue purchasing the same amount of the good or service irrespective of its price.

104. What is the formula for percentage method of calculating price elasticity of supply?

Ans : SQP 2024

$$E_d \frac{\text{Percentage Change in Demanded}}{\text{Percentage Change in Price}}$$

105. Mention any two examples of composite demand.

Ans : COMP 2023

Two examples of composite demand are:

(i) Land, which can be utilized for farming or constructing buildings.

(ii) Steel, which can be used to manufacture tanks or bicycles.

106. Explain any one exception to the law of demand.

Ans : MAIN 2023

Articles of distinction serve as an example of an exception to the law of demand. These are high-priced commodities typically purchased by affluent sections of society as symbols of status and prestige. When the price of such goods decreases, their demand also declines.

107. With the help of an example, explain the term inferior goods.

Ans : SQP 2020

Inferior goods are those whose demand decreases as the income of consumers increases. For example, items like coarse grains or inexpensive clothing may experience a drop in demand as people shift to higher-quality alternatives with an increase in income.

108. What are normal goods? Give two examples.

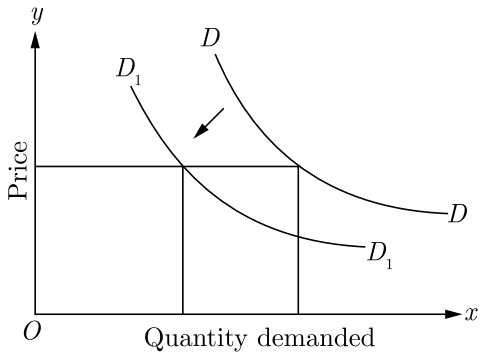
Ans : MAIN 2019

Normal goods are products whose demand rises as consumer income increases. For example, goods like air conditioners, refrigerators, or coolers are typically in greater demand as consumers have more disposable income.

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109. If a buyer buys less of a commodity when his income falls, how will his demand curve change? Illustrate your answer with a diagram.

Ans : COMP 2019



When a buyer's income decreases, their purchasing power reduces, leading to a decrease in demand for certain commodities. This is represented by a leftward shift of the demand curve. For example, the demand curve moves from D to D1 in the diagram provided, indicating reduced quantity demanded at the same price levels.

110. With the help of an example, explain the term complementary goods.

Ans : SQP 2018

Complementary goods are products that are used together to fulfill a specific need. These goods are jointly demanded because they complement each other.

Example : Car and petrol, pen and ink, or glass and water.

111. With suitable examples, differentiate between complementary goods and substitute goods.

Ans : MAIN 2017

Substitute Goods : These are goods that can replace each other in fulfilling human needs. If the price of one good increases, the demand for its substitute also rises.

Example : Tea and coffee are substitutes.

Complementary Goods : These are goods that are used together to meet a specific need. They complete each other's demand. A rise in the price of one good often decreases the demand for its complement.

Example : Car and petrol.

112. Explain briefly any one determinant of an exceptional demand curve.

Ans : COMP 2017,2014

(i) Giffen Goods : Giffen goods are a unique type of inferior good where demand increases as the price rises. These goods take up a significant portion of the consumer's income, and the negative income effect outweighs the substitution effect. For instance, as the price of bread rises, poorer households might consume more bread because they cannot afford more expensive food alternatives. This behavior contradicts the law of demand. Sir Robert Giffen discovered this phenomenon with bread consumption among British workers.

(ii) Veblen Effect : Thurston Veblen observed that certain consumers associate high prices with superior quality. As a result, when prices rise, the demand for such goods also increases. This behavior is common with luxury items such as cosmetics or soaps, where consumers buy expensive products simply because they assume higher prices reflect better quality.

(iii) Conspicuous Consumption : Certain consumers purchase products to display wealth or status. They believe that owning expensive goods enhances their social standing. Examples include luxury cars and jewelry. For such products, higher prices often lead to increased demand, as these goods are considered symbols of prestige.

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113. Explain the meaning of Composite Demand with the help of an example.

Ans : COMP 2020

Composite demand refers to a situation where a single good or service is demanded for multiple uses. For instance, milk can be used for producing cheese, yogurt, cream, butter, and other products. If more milk is utilized for making cheese, less milk will be available for other purposes like making butter, assuming other factors remain constant (ceteris paribus).

114. State two circumstances under which the demand curve slopes upward to the right.

Ans : SQP 2012,2017

(i) Impulsive Purchases : Sometimes, consumers make impulsive purchases without carefully evaluating the price or utility of the product. In such cases, the demand for the product may increase even when its price rises, resulting in an upward-sloping demand curve.

(ii) Future Expectations about Prices : When consumers anticipate that prices will increase further in the future, they may purchase larger quantities of goods even at current higher prices. This behavior leads to an upward-sloping demand curve, as demand rises with price under these circumstances.

115. What is meant by contraction in demand?

Ans : MAIN 2016

Contraction in demand refers to a decrease in the quantity demanded of a commodity as a result of an increase in its price. This occurs along the same demand curve and reflects a movement upward due to higher prices.

116. Mention any two factors that cause a rightward shift of the demand curve.

Ans : COMP 2015

The main factors that cause a rightward shift in the demand curve include :

(i) Income of the Consumer : An increase in consumer income leads to a higher demand for normal goods, causing the demand curve to shift to the right.

(ii) Price of Related Goods : In the case of substitute goods, an increase in the price of one substitute increases the demand for the other, shifting its demand curve rightward. For complementary goods, a fall in the price of one increases the demand for the other, also shifting the curve to the right.

117. Distinguish between Normal Goods and Inferior Goods.

Ans : SQP 2015

Point of Difference	Normal Goods	Inferior Goods
Meaning	Goods whose demand increases with higher income.	Goods whose demand decreases with higher income.
Income Effect	Income effect is positive.	Income effect is negative.
Example	Full cream milk.	Toned milk.

118. State two factors affecting the market demand of a commodity.

Ans : MAIN 2014

The key factors affecting the market demand for a commodity include :

(i) Income of the Consumer : Higher income increases the demand for normal goods.

(ii) Price of Related Goods : Demand is influenced by the price of substitutes or complementary goods.

119. The bus fare between two cities is reduced. How will this affect the demand curve for bus travel between the two cities?

Ans : COMP 2013

A reduction in bus fare will lead to an increase in the number of passengers traveling by bus. As a result, there will be a downward movement along the same demand curve, reflecting a higher quantity demanded due to the lower price, without shifting the demand curve itself.

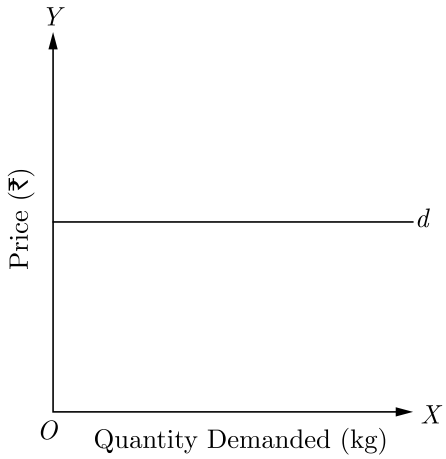
120. Define price elasticity of demand.

Ans : MAIN 2019

Price elasticity of demand measures the responsiveness of the quantity demanded to a change in the price of the commodity. It is the ratio of the percentage change in quantity demanded to the percentage change in price.

121. Draw a diagram showing a perfectly elastic demand curve.

Ans : COMP 2018



122. With the help of a diagram, define perfectly elastic demand.

Ans : SQP 2017

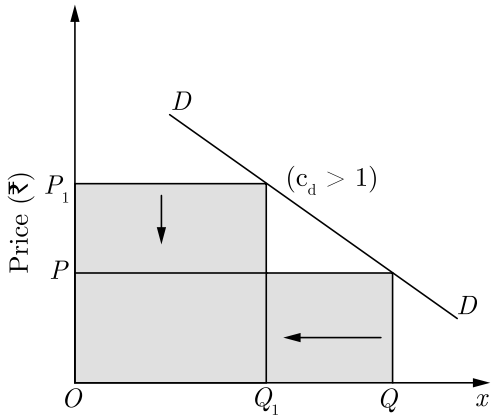
Perfectly elastic demand occurs when even a small change in price causes an infinite change

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in the quantity demanded. The demand curve for perfectly elastic demand is horizontal, indicating that the price remains constant regardless of the quantity demanded.

123. Give a graphical representation of relatively elastic demand.

Ans : SQP 2020



124. Mention the degree of price elasticity of demand for the following goods :

(i) Cosmetics
(ii) Medicine
(iii) School Uniform
(iv) Air Conditioners

Ans : MAIN 2016

(i) Cosmetics : Highly elastic
(ii) Medicine : Highly inelastic
(iii) School Uniform : Perfectly inelastic
(iv) Air Conditioners : Highly elastic

125. What is meant by cross elasticity of demand?

Ans : COMP 2015

Cross elasticity of demand measures how the demand for one good is influenced by a change in the price of another good. For example, if the price of petrol rises, the demand for cars may fall, indicating a relationship between the two goods.

126. What is meant by price elasticity of demand?

Ans : SQP 2014

Price elasticity of demand indicates the degree to which the quantity demanded of a commodity changes in response to price changes. It is determined by dividing the percentage change in quantity demanded by the percentage change in price.

$$E_d = (-)\frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

$$E_d = (-)\frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}} = (-)\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

127. Briefly explain the percentage method of calculating elasticity of demand.

Ans : MAIN 2012

This method, also known as the proportionate method or flux method, calculates price elasticity of demand by taking the ratio of the percentage change in quantity demanded to the percentage change in price.

$$E_d = (-)\frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

$$= (-)\frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100} = (-)\left[\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}\right]$$

128. Study the statement given below and state whether demand will be elastic or inelastic, citing reasons for your answer.

(i) Demand for cigarettes by a habitual smoker.
(ii) A consumer postpones the purchase of a refrigerator till the off-season sale.

Ans : COMP 2011

(i) Inelastic Demand : Cigarettes for a habitual smoker have inelastic demand because consumption is unaffected by price changes. Such addictive goods are considered conventional necessities.
(ii) Elastic Demand : A refrigerator's demand is elastic if the consumer can delay purchasing until an off-season sale. In this case, the consumer waits for lower prices, demonstrating price sensitivity.

129. How does the price of a commodity affect the supply of a commodity?

Ans : SQP 2020

The supply of a commodity is directly related to its price. As the price increases, producers are willing to supply more of the commodity to earn higher profits. Conversely, when the price decreases, the quantity supplied reduces.

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130. Draw a supply schedule using hypothetical data.

Ans : MAIN 2020,2019

A hypothetical supply schedule is as follows:

Price (₹)	Quantity (Units)
1	10
2	20
3	30
4	40
5	50
6	60

131. Explain any one factor that affects the supply of a commodity.

Ans : MAIN 2018

(i) Price of the Commodity : There is a direct relationship between price and quantity supplied. As price rises, producers supply more to maximize profits. Conversely, as price decreases, the quantity supplied reduces.

(ii) Price of Related Goods : If a producer can switch between producing two goods (e.g., wheat and rice), the price of one affects the supply of the other. For instance, if the price of rice increases, the producer will allocate more resources to rice production, reducing the supply of wheat. A fall in rice prices will reverse this effect.

(iii) Objective of the Firm : Firms may aim to maximize profits, sales, goodwill, or employment opportunities. For instance, a firm aiming to maximize sales may supply more at lower prices, while one aiming to maximize profits may adjust supply according to profit margins.

(iv) Price of Inputs/Factors : The cost of inputs such as raw materials, wages, or rent influences supply. For example, if the price of cotton rises, the cost of producing cloth increases, reducing profit margins. Producers may decrease supply at the same price. Conversely, lower input costs increase supply.

(v) Technology of Production : Improved technology lowers production costs, increasing supply as profits rise at the same price. However, outdated technology increases costs, leading to reduced supply.

(vi) Taxation Policy of Government : Taxes and subsidies affect supply. For example:

(a) A subsidy reduces production costs, encouraging more supply.

(b) An excise tax increases costs, reducing supply. For harmful goods like cigarettes, higher taxes discourage production.

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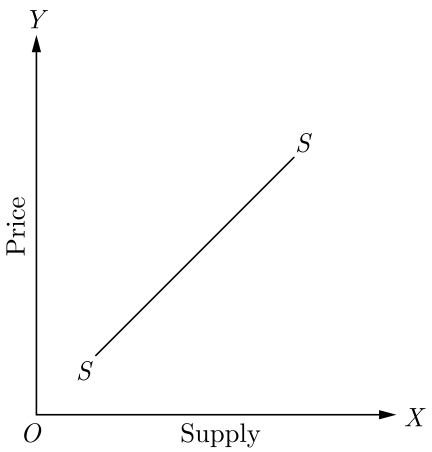
132. Why is supply directly proportional to price?

Ans : COMP 2017

Supply is directly proportional to price because higher prices offer producers greater profit margins, motivating them to increase production and supply more goods to the market. Conversely, lower prices reduce profitability, leading to a decrease in supply.

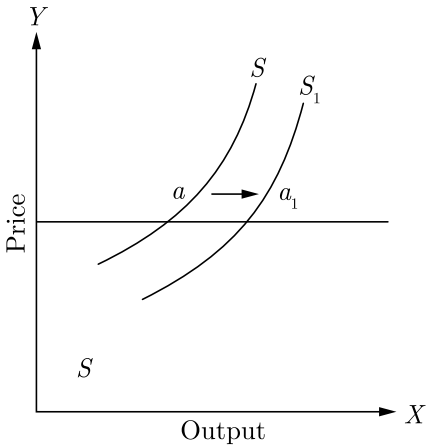
133. Draw supply curve.

Ans : MAIN 2014



134. How does an improvement in production technology influence the supply curve of a firm?

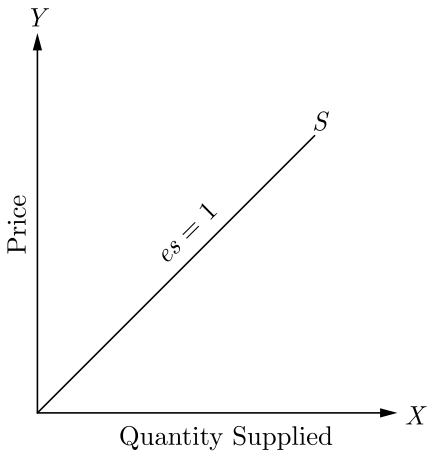
Ans : COMP 2011



When improved technology is utilized in the production of goods, it reduces the cost of production and increases the firm's supply. As a result, an improvement in technology shifts the supply curve to the right.

135. Draw a well labelled diagram showing the price elasticity of supply of a comodity starting from the origin.

Ans : SQP 2019



136. Explain briefly the impact of cost of production on elasticity of supply.

Ans : MAIN 2017

The cost of production significantly influences the elasticity of supply.

(i) When the cost of production is low, producers can easily increase supply in response to a price increase, making supply elastic.

(ii) Conversely, if the cost of production is high, it becomes difficult for producers to adjust supply quickly, resulting in inelastic supply.

137. Give two assumptions of the law of supply.

Ans : COMP 2019

Assumptions of the Law of Supply :

(i) The price of related goods remains constant.

(ii) The price of factor inputs does not change.

(iii) Technology of production stays unchanged.

(iv) Taxation policy of the government does not alter.

(v) The objective of the firm remains consistent.

138. Define supply.

Ans : SQP 2019

Supply refers to the quantity of a commodity that a producer is willing and able to sell at a given price during a specific time period.

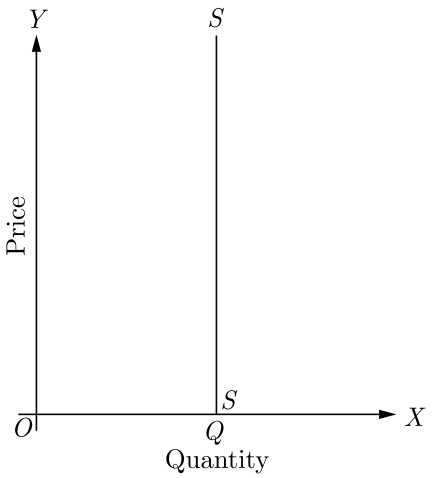
139. What is the impact of the level of technology on supply?

Ans : SQP 2016

Technological advancements help producers lower production costs and improve profit margins, which encourages increased supply. On the other hand, using old or outdated technology increases production costs and decreases the willingness of producers to supply more goods.

140. Draw a perfectly inelastic supply curve.

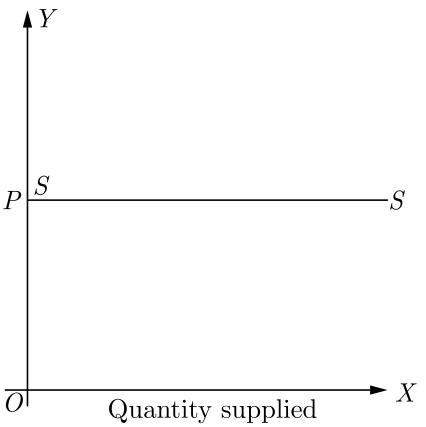
Ans : COMP 2016



141. Draw a perfectly elastic supply curve.

Ans : SQP 2015

A perfectly elastic supply curve is a horizontal straight line parallel to the x-axis. It indicates that the quantity supplied can change infinitely without any change in price.



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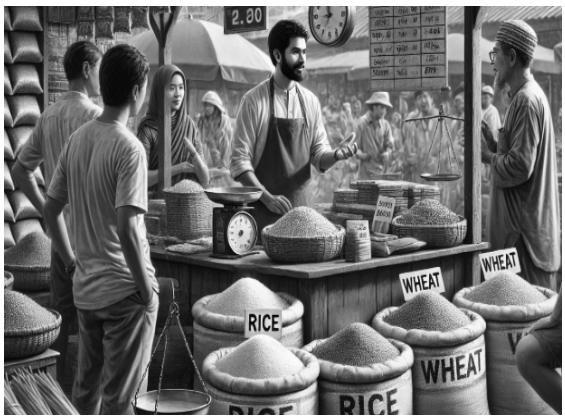
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142. Examine the image below showing a shopkeeper selling two products : rice and wheat. State and explain the concept of substitutes in demand. How would an increase in the price of rice affect the demand for wheat?



Ans : COMP 2018

(i) Substitutes in Demand : Substitute goods are products that can replace each other in consumption. If the price of one increases, consumers tend to shift their demand to the other. In this case, rice and wheat are substitutes because they serve a similar purpose as staple foods.

(ii) Effect of Price Increase in Rice on Wheat Demand : If the price of rice rises, consumers may reduce their rice purchases and increase their demand for wheat as a cheaper alternative. This inverse relationship highlights how substitute goods influence each other's demand.

143. Observe the table below showing changes in the quantity of goods supplied in response to price changes. Using the table, distinguish between individual and market supply curves and plot a market supply curve.

Ans : SQP 2014

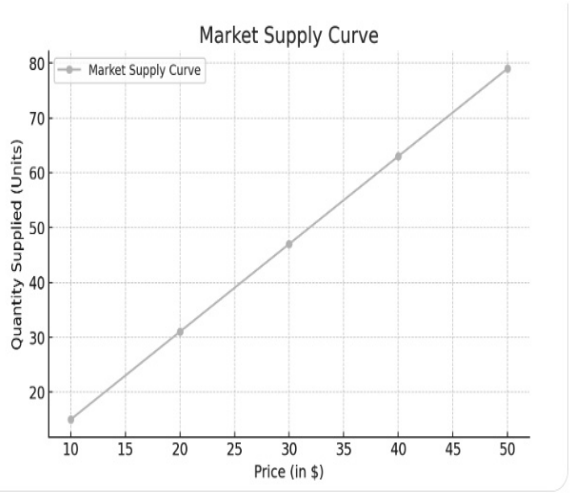
The table showing the price and quantities supplied by individuals, along with the total market supply, has been presented to you.

Distinction:

(i) Individual Supply Curve : Represents the quantity of goods an individual supplier is willing to sell at various prices.

(ii) Market Supply Curve : Aggregates the quantities supplied by all individual suppliers in the market at each price point, showing the total market response.

The plotted curve visually represents the Market Supply Curve based on the data.



144. Analyze the image below depicting a customer purchasing a luxury car.
Explain how elasticity of demand applies to luxury goods. What factors make such goods price elastic?



Ans : MAIN 2016

Elasticity of demand for luxury goods is generally high, meaning that demand is sensitive to price changes. If prices increase, consumers may significantly reduce their purchases, as luxury items are not essential and often have substitutes or alternative indulgences.

Factors contributing to high price elasticity of luxury goods include:

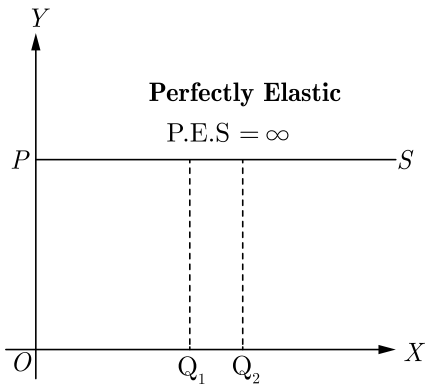
(i) Availability of Substitutes : Many luxury goods face competition within the same segment, offering consumers alternatives.

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(ii) Proportion of Income : Luxury goods represent a significant expense, making buyers more price-sensitive.
(iii) Non-essential Nature : Unlike necessities, luxury goods are optional and often purchased for status or personal gratification.
(iv) Market Trends : Consumer demand for luxury goods can be influenced by economic conditions and trends, making demand volatile.

145. Indicate the degree of elasticity of a supply curve parallel to the x-axis.

Ans : MAIN 2013



When a supply curve is parallel to the x-axis, it represents perfect elasticity of supply (e_s = infinity). This means that any small change in price results in an infinite change in quantity supplied.
In such cases, supply increases or decreases automatically without any change in price.

146. Refer to the image of a farmer selling wheat during a bumper crop season. Discuss the movement of the supply curve under such circumstances. What could lead to a leftward shift of the supply curve?



Ans : COMP 2012

During a bumper crop season, the supply of wheat increases significantly, resulting in a rightward shift of the supply curve. This reflects an increase in quantity supplied at the same price levels due to higher agricultural output. A leftward shift of the supply curve, indicating a decrease in supply, could occur due to factors such as:
(i) Adverse Weather Conditions : Droughts or floods can reduce wheat production.
(ii) Increased Production Costs : Higher costs of inputs like seeds, fertilizer, or labor can make farming less viable.
(iii) Pests and Diseases : A spread of crop diseases can damage wheat yields.
(iv) Government Policies : Policies such as higher export taxes or reduced subsidies may discourage production.
(v) Alternative Crop Incentives : Farmers may shift to more profitable crops, reducing wheat supply.

147. Examine the advertisement below promoting a new mobile phone. Discuss how promotional activities act as a determinant of demand. How does this affect the demand curve?



Ans : SQP 2000

Promotional activities, such as advertising, directly influence demand by increasing consumer awareness, creating interest, and persuading potential buyers to purchase a product. They highlight the product's features, benefits, and unique selling points, making it more appealing. Promotional activities affect the demand curve by:

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(i) Shifting the Demand Curve to the Right : Effective promotions increase consumer desire and willingness to purchase, boosting demand at all price levels.

(ii) Enhancing Perceived Value : Advertisements may position the product as a premium or essential choice, leading to greater demand even if prices rise.

(iii) Targeting Specific Markets : Promotions can create or expand demand among specific demographic groups or markets, broadening the customer base.

148. Examine the image showing a bustling vegetable market.
What factors influence the elasticity of supply for perishable goods like vegetables? Discuss with examples.



Ans : COMP 2011

The elasticity of supply for perishable goods like vegetables is influenced by:

(i) Storage Capability : Limited storage facilities make supply less elastic.

(ii) Time Period : Shorter time periods make it harder for farmers to adjust production.

(iii) Weather Conditions : Unfavorable weather can reduce supply flexibility.

149. Analyze the image below depicting a grocery store selling essential goods like bread and milk.
Using the law of demand, explain why demand for these goods remains stable despite small price fluctuations.



Ans : MAIN 2015

The demand for essential goods like bread and milk is relatively inelastic. These goods are necessities, and their consumption does not change significantly with price changes. Consumers prioritize purchasing these goods regardless of price fluctuations because they are essential for daily survival.

150. Look at the image showing a classroom filled with students.
The government recently reduced education tax. Explain how this could lead to a rightward shift in the supply curve of educational services.

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Ans : SQP 2009

A reduction in education tax lowers the cost of providing educational services. This increases the profitability for institutions, encouraging them to

offer more services. As a result, the supply curve shifts rightward, indicating an increase in the quantity supplied at the same price levels

151. Analyze the image of a shopping mall offering heavy discounts.
Explain how price elasticity of demand is affected during discount seasons. Illustrate with examples of luxury and necessary goods.



Ans : MAIN 2005

During discount seasons, the price elasticity of demand increases for luxury goods as consumers become more responsive to lower prices. For necessary goods, demand remains relatively inelastic since these items are purchased irrespective of price discounts.

152. Study the image showing a famous jewelry showroom.
Explain why luxury items like gold jewelry have a higher price elasticity of demand compared to essential goods.



Ans : SQP 2007

Luxury items like gold jewelry have higher price elasticity of demand because:
(i) Non-Essential Nature : They are not necessities, so consumers can defer or avoid purchases when prices increase.
(ii) High Income Sensitivity : Demand is more affected by changes in income and price.
(iii) Availability of Substitutes : Alternatives like silver or artificial jewelry make demand elastic.

153. Examine the image of a smartphone launch event with high consumer interest.
Discuss the concept of demand shift and factors that could cause a leftward or rightward movement in the demand curve for smart phones.



Ans : MAIN 2004

Factors that cause shifts in demand for smart phones include:
(i) Technological Advancements : Improved features increase demand, causing a rightward shift.
(ii) Price Changes : Lower prices can increase demand, while higher prices reduce it.
(iii) Consumer Preferences : Trends and brand loyalty significantly impact demand.
(iv) Income Levels : Rising disposable income increases demand for premium smart phones.

154. "Law of demand explains the inverse relationship between the price and quantity demanded of a good." Justify the statement with two suitable reasons.

Ans : COMP 2008

(i) Substitution Effect : When the price of a good rises, consumers may switch to cheaper substitutes, reducing the demand for the good.

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(ii) Income Effect : As the price of a good increases, the purchasing power of consumers decreases, leading to a fall in the quantity demanded.

155. Observe the image showing a farmer's field with tractors harvesting crops.
Discuss the impact of improved technology on the elasticity of supply for agricultural products.



Ans : COMP 2006

Improved technology enhances supply elasticity for agricultural products. It allows farmers to produce more efficiently and respond quickly to price changes by increasing output, leading to a more elastic supply curve.

156. "The demand curve shifts to the right when there is an increase in income of consumers for normal goods." Justify this statement with examples.

Ans : SQP 2003

(i) Increased Afford ability : Higher income allows consumers to afford more of normal goods, e.g., an increase in income may result in greater demand for cars.
(ii) Preference for Quality Goods : As income increases, consumers tend to prefer higher-quality or branded products, shifting the demand curve to the right.

157. "Elasticity of demand is crucial for producers in determining pricing strategies." Justify the statement with two appropriate reasons.

Ans : MAIN 2002

(i) Pricing Decisions : Producers can set prices based on the elasticity of demand. For elastic goods, lowering prices can increase total revenue.
(ii) Understanding Consumer Behavior : Elasticity helps producers predict how consumers will respond to price changes, e.g., luxury goods with elastic demand see significant sales drops if prices rise.

158. "Elasticity of supply is affected by the time period available for production." Explain this statement with suitable reasons.

Ans : COMP 2001

(i) Short Run : In the short run, supply is inelastic because producers cannot quickly increase production, e.g., crops cannot be grown overnight.
(ii) Long Run : Over time, producers can adjust resources and technology, making supply more elastic, e.g., factories can expand to meet increased demand.

159. "The law of demand holds true only under certain assumptions." Justify the statement with two exceptions to the law of demand.

Ans : SQP 2010

(i) Giffen Goods : For Giffen goods, a rise in price leads to higher demand due to the strong income effect, e.g., staple foods like bread in poor regions.
(ii) Veblen Goods : Luxury items like designer handbags see higher demand as prices rise because they are perceived as status symbols.

160. "Determinants like tastes and preferences significantly influence demand for a product." Explain this statement with examples.

Ans : MAIN 2024

(i) Tastes and Preferences : Changes in consumer preferences, e.g., the rise in popularity of electric vehicles, increase their demand.
(ii) Advertising and Trends : Effective advertising can shift preferences, leading to higher demand, e.g., an ad campaign for a new smartphone.

161. "A change in price causes a movement along the demand curve, whereas a change in income causes a shift in the demand curve." Differentiate these with examples.

Ans : COMP 2023

(i) Movement : When the price of apples decreases, the quantity demanded increases, moving along the demand curve.

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(ii) Shift : An increase in consumer income leads to higher demand for organic apples, shifting the demand curve to the right.

162. "Supply curve shifts to the right with technological improvements." Justify this statement with suitable reasons.

Ans : SQP 2022

(i) Improved Efficiency : New technology reduces production costs and increases output, e.g., automated machinery in factories.

(ii) Higher Productivity : Enhanced methods, such as genetically modified seeds in agriculture, lead to higher supply.

163. Explain with reasons which of the following can be considered as determinants of supply:

(i) Technological advancements in production.

(ii) Seasonal changes affecting agricultural goods.

Ans : MAIN 2021

(i) Technological advancements improve production efficiency, enabling producers to supply more at the same price. For example, automated machinery increases output, shifting the supply curve rightward.

(ii) Seasonal changes significantly impact supply, especially for agricultural goods like fruits. For instance, during harvest seasons, supply increases due to favorable conditions.

164. Which of the following products exhibit inelastic demand? Justify your answer:

(i) Essential medicines.

(ii) Seasonal fruits during harvest.

Ans : COMP 2020

(i) Essential medicines have highly inelastic demand because they are life-saving, and consumers must purchase them regardless of price. For example, insulin for diabetic patients is always in demand.

(ii) Seasonal fruits during harvest have elastic demand because their large supply lowers prices significantly, making demand more responsive to price changes.

165. Explain with reasons which of the following are exceptions to the law of demand:

(i) Veblen goods like luxury cars.

(ii) Giffen goods like low-quality rice.

Ans : SQP 2019

(i) Veblen goods like luxury cars defy the law of demand. As prices rise, their demand increases because they are considered status symbols, attracting consumers seeking prestige.

(ii) Giffen goods like inferior staples see demand rise with increasing prices. For example, in low-income areas, a rise in bread prices can lead to more bread consumption as people cut back on expensive alternatives like meat.

166. Classify which of the following would influence market demand and explain why:

(i) Population growth.

(ii) A government-imposed tax on goods.

Ans : MAIN 2017

(i) Population growth increases market demand as a larger number of people consume goods. For instance, demand for staple foods rises in a growing population.

(ii) Government-imposed taxes increase the price of goods, reducing afford ability for consumers. For example, higher taxes on fuel reduce its demand as people shift to cheaper alternatives like public transport.

167. Justify the following statement with any two valid arguments :
"In the law of demand, there is an inverse relationship between price and quantity demanded."

Ans : COMP 2013

(i) The law of demand states that when the price of a good increases, the quantity demanded decreases because higher prices reduce consumer afford ability. For example, when the price of apples increases, consumers tend to buy fewer apples.

(ii) Additionally, as prices rise, consumers may substitute the good with cheaper alternatives, further reducing the demand for the higher-priced good.

168. Justify the following statement with any two valid arguments :
"An increase in the price of complementary goods reduces the demand for a product."

Ans : SQP 2018

(i) Complementary goods are those consumed together, such as petrol and cars. If the price of petrol increases, the overall cost of using a car rises, reducing the demand for cars.

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(ii) Consumers tend to avoid purchasing one good if its complement becomes expensive, as it affects the total cost of consumption for both goods.

169. Justify the following statement with any two valid arguments :
A shift in the demand curve occurs due to changes in factors other than the price of the good."

Ans : MAIN 2014

(i) A demand curve shifts when factors like income, preferences, or external events change. For example, higher income increases demand for normal goods, causing a rightward shift.

(ii) Advertising or changes in population can also affect demand. For instance, a successful marketing campaign for electric vehicles can shift the demand curve rightward, increasing demand even if prices remain constant.

170. Justify the following statement with any two valid arguments :
"An individual supply curve and a market supply curve differ in scope and size."

Ans : COMP 2016

(i) The individual supply curve represents the quantity of goods a single producer supplies at various prices. For instance, a farmer supplying wheat has their individual supply curve.

(ii) The market supply curve aggregates the supply of all producers in the market. It reflects a broader view of supply, covering the total quantity supplied by multiple producers at different price levels.

171. Justify the following statement with any two valid arguments :
Goods with elastic demand are highly responsive to price changes."

Ans : SQP 2012

(i) Elastic goods like luxury items (e.g., designer watches) see significant demand changes when prices fluctuate. If prices decrease, demand rises sharply, as more consumers can afford them.

(ii) Consumers can delay or avoid purchases of elastic goods if prices increase, making their demand highly sensitive to price changes. This characteristic helps firms understand consumer behavior and adjust pricing.

172. Justify the following statement with any two valid arguments :
Supply elasticity depends on the time available for production adjustments."

Ans : MAIN 2000

(i) In the short run, supply tends to be inelastic because production factors like labor and machinery cannot be quickly adjusted. For example, a factory cannot instantly increase output if demand spikes.

(ii) Over the long run, producers can invest in additional resources or technology, making supply more elastic. For instance, a car manufacturer can build new factories over time to increase production.

173. Justify the following statement with any two valid arguments :
Necessities tend to have inelastic demand compared to luxuries."

Ans : COMP 2015

(i) Necessities like food or basic medicines are essential, so their demand remains constant despite price increases. For example, people will continue buying essential medicines like insulin regardless of price changes.

(ii) Luxuries like branded clothes are non-essential, and their demand decreases significantly when prices rise. This difference highlights how consumer behavior varies based on the importance of goods.

174. Justify the following statement with any two valid arguments :
Price elasticity of demand is crucial for firms in determining pricing strategies."

Ans : SQP 2011

(i) Firms use elasticity to set prices that maximize revenue. For elastic goods like movie tickets, lowering prices attracts more customers, increasing total sales and revenue.

(ii) For inelastic goods like electricity, firms can raise prices without significantly reducing demand. This strategy ensures profitability, as consumers continue purchasing these goods despite higher prices.

175. Justify the following statement with any two valid arguments :
Exceptions to the law of demand include Giffen goods and Veblen goods."

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Ans : MAIN 2009

(i) Firms use elasticity to set prices that maximize revenue. For elastic goods like movie tickets, lowering prices attracts more customers, increasing total sales and revenue.

(ii) For inelastic goods like electricity, firms can raise prices without significantly reducing demand. This strategy ensures profitability, as consumers continue purchasing these goods despite higher prices.

176. Justify the following statement with any two valid arguments :
Movement along the supply curve differs from a shift in the supply curve."

Ans : COMP 2005

(i) A movement along the supply curve occurs when the price of the good itself changes. For example, if the price of wheat rises, farmers produce and supply more wheat, leading to an upward movement.

(ii) A shift in the supply curve occurs when external factors like technological advancements or input costs change. For instance, if fertilizer prices decrease, farmers can produce more wheat, shifting the supply curve to the right.

FIVE MARKS QUESTIONS

177. (i) What do you mean by market supply?
(ii) Briefly explain any three factors that affect the supply of a commodity.

Ans : MAIN 2024

(i) Market supply refers to the total quantity of a good or service that all producers are both willing and able to offer for sale at various prices within a specific market and time period. It represents the aggregate supply provided by all producers or sellers in the market.

(ii) Factors Affecting Supply :

(a) Price of the Commodity : As the price of a commodity rises, producers are generally more willing to supply greater quantities to the market, as higher prices yield greater profitability.

(b) Price of Related Goods : The prices of related goods, including substitutes and complements, influence the supply of a particular commodity. For instance, an increase in the price of a substitute may lead producers to reduce the supply of the original good.

(c) Price of Factor Inputs : The cost of production, including raw materials, labor, and capital, directly impacts supply. Higher input prices typically reduce supply, as production becomes more expensive.

(d) Goal of the Firm : The profit-maximization objective of firms drives their supply decisions. Firms may adjust production levels based on changes in market conditions to maximize profits.

(e) Technical Know-how : Technological advancements and improved production techniques enhance efficiency and reduce costs, enabling higher levels of supply for a given price.

(f) Expected Change in Price : Anticipated future price changes influence current supply decisions. Producers may increase or decrease supply depending on their expectations of future profitability.

(g) Number of Firms in the Industry : The overall market supply is influenced by the number of firms operating in the industry. More firms generally result in greater competition and higher total supply.

(h) Government Policies : Policies such as subsidies, taxes, and trade regulations significantly affect supply. Subsidies may encourage increased production, while taxes might discourage it. Regulations can also impact production costs and market entry.

178. Read the following statements :
State whether demand will be Elastic or Inelastic. Give reasons for your answer.
(i) The demand for salt by households.
(ii) A consumer prefers to postpone the purchase of a car to avail more of year-ending discount.

Ans : COMP 2024

(i) **Inelastic :** The demand for salt is typically inelastic because it is a necessary good, essential for cooking and food preservation. Regardless of price changes, consumers tend to maintain consistent demand for salt as it has limited substitutes and is a staple in households. Similarly, other essential goods like sugar and milk display inelastic demand due to their fundamental role in daily consumption.

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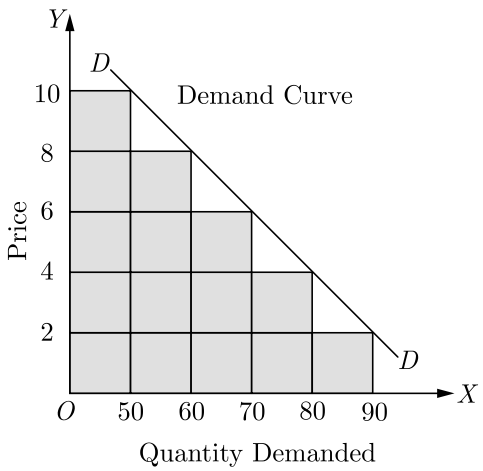
(ii) **Elastic :** Elastic demand occurs when price changes result in proportionally larger changes in the quantity demanded. In this scenario, the consumer's willingness to postpone purchasing a car indicates price sensitivity. The anticipation of a discount encourages the consumer to delay the purchase, expecting a lower price in the future. This responsiveness to price variations is a characteristic of elastic demand.

179. State and explain the law of demand with the help of a hypothetical schedule and graph.

Ans : SQP 2024

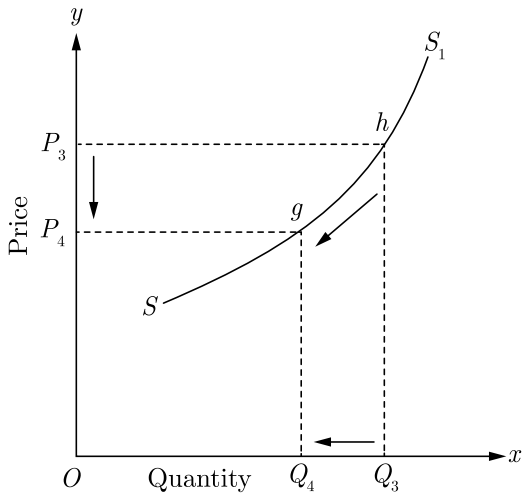
The law of demand states that, other factors remaining constant, the quantity demanded of a commodity decreases with an increase in its price and increases with a decrease in its price. This demonstrates an inverse relationship between the price and quantity demanded of a commodity.
This concept can be explained with the help of a demand schedule and a demand curve. The table and curve below illustrate the inverse relationship between price and quantity demanded:
Demand Schedule and Demand Curve Showing the Inverse Relation Between Price and Quantity Demanded

Price per Unit (₹)	Quantity Demanded
10	50
8	60
6	70
4	80
2	90



180. With the help of a suitable diagram, explain contraction of supply.

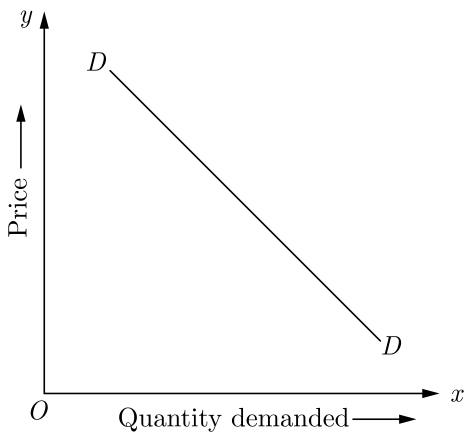
Ans : MAIN 2023



Contraction in Supply : When the supply of a commodity decreases due to a fall in its own price, while all other factors remain constant, it is referred to as contraction in supply. This decrease in quantity supplied is represented by a downward movement along the supply curve.
For instance, if the price drops from ₹10 to ₹5 per unit, the supply reduces from 100 units to 80 units. This phenomenon is depicted as a contraction in supply.
The diagram illustrates the movement from point h to g, which represents contraction in supply. This concept aligns with the law of supply.

181. (i) What are inferior goods?
(ii) Explain any three determinants or factors affecting demand.

Ans : COMP 2023



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(i) Inferior Goods : Inferior goods are those whose demand increases when the consumer's income decreases. The relationship between income and demand for these goods is inversely proportional.

(ii) Determinants Affecting Demand :

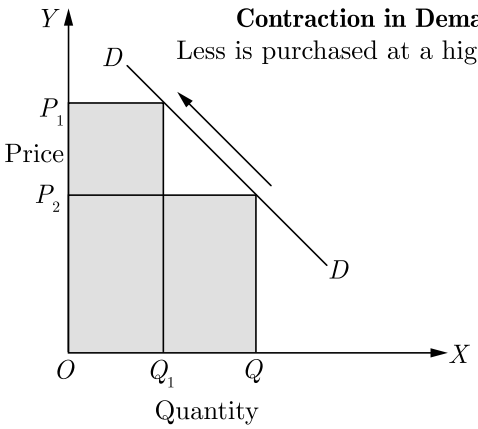
(a) Price of the Commodity (Px) : When the price of a commodity rises, its demand falls, and when the price falls, its demand rises. This demonstrates an inverse relationship between price and demand, resulting in a downward-sloping demand curve.

(b) Price of Related Goods (Py) : Substitutes or Competitive Goods : When the price of one good increases, the demand for its substitute also increases. Example : Tea and coffee. Complementary Goods : When the price of one good increases, the demand for its complement decreases.

182. Draw and explain the difference between contraction and extension in demand.

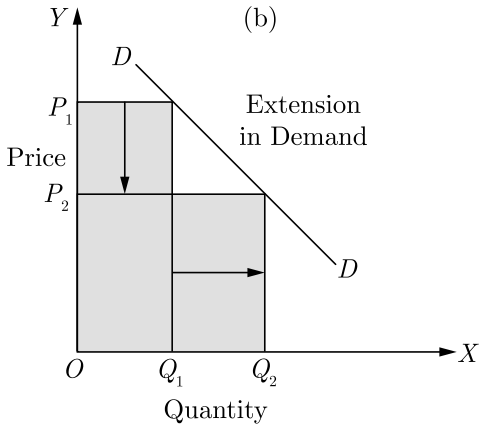
Ans : MAIN 2020

(a)



Contraction in Demand:
Less is purchased at a higher price

(b)



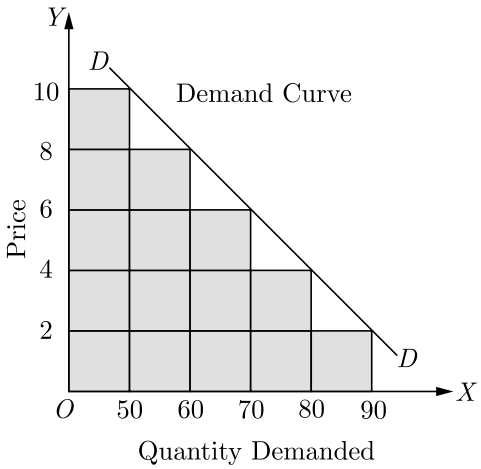
An extension in demand occurs when the quantity demanded of a commodity rises due to a decrease in its price, assuming all other factors remain constant. This is represented by a downward movement along the demand curve. In contrast, a contraction in demand happens when the quantity demanded falls due to an increase in the price of the commodity, with other factors unchanged. This is shown by an upward movement along the demand curve.

183. With the help of a schedule and graph, explain the law of demand.

Ans : SQP 2020

The law of demand suggests that, keeping other factors constant, the quantity demanded of a commodity decreases as its price increases and rises when its price falls. This indicates an inverse relationship between price and quantity demanded. This relationship is illustrated using a demand schedule and a demand curve, both of which demonstrate the negative correlation between price and quantity demanded.

Price per unit (₹)	Quantity Demanded
10	50
8	60
6	70
4	80
2	90



184. (i) State the law of demand.

(ii) Briefly explain any two reasons for this occurrence.

Ans : COMP 2019

(i) The law of demand explains the relationship between the price of a product and the quantity demanded. It states that when the price of a product increases, the quantity demanded decreases, and when the price decreases, the quantity demanded increases, provided other factors remain constant. This establishes an inverse relationship between price and quantity demanded.

(ii) Reasons for the Law of Demand :

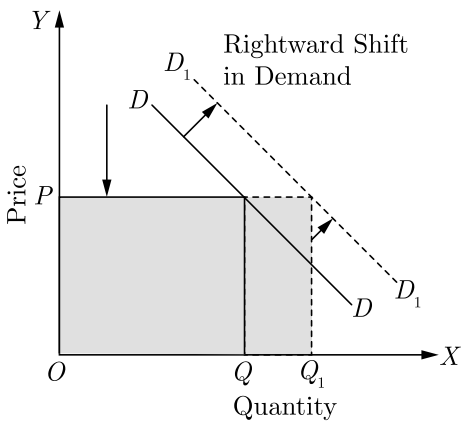
(a) Income Effect : When the price of a commodity decreases, the real income or purchasing power of consumers increases, enabling them to buy more of the commodity with the same income. This leads to a rise in demand.

(b) Substitution Effect : When the price of a commodity decreases, it becomes cheaper relative to its substitutes, leading consumers to substitute the cheaper commodity for its alternatives. This increases demand for the cheaper commodity.

(c) Law of Diminishing Marginal Utility : This law states that as a consumer purchases more units of a commodity, the additional utility derived from each subsequent unit decreases. Therefore, consumers are willing to buy more only when the price is lower, as higher prices do not justify the diminishing utility of additional units.

185. With the help of a suitable diagram, explain the meaning of a rightward shift in the demand curve. Explain briefly any two of its determinants.

Ans : MAIN 2017



When the demand for a commodity increases due to changes in factors other than price, the demand curve shifts to the right, and this is called a rightward shift in demand curve. The price remains constant in this case.

In the diagram, DD is the demand curve at P price and Q quantity. When demand rises due to other factors, it shifts to the right at D_1D_1. It is called a rightward shift in demand curve.

Two Determinants of Rightward Shift in Demand :

(i) Income of the Consumer : As consumer income rises, the demand for normal goods increases, shifting the curve to the right.

(ii) Price of Related Goods : For substitutes, a price increase in one good leads to increased demand for the other. For complementary goods, a price decrease in one good increases the demand for its complement, shifting the curve rightward.

(iii) Tastes and Preferences : If a consumer's tastes and preferences change, the quantity demanded of the commodity will also change.

(iv) Income Distribution : If income distribution is even, market demand for the commodity will be higher than otherwise.

(v) Size of Population : A higher population implies greater market demand for goods and services, and vice versa.

186. (i) Define the term demand.

(ii) Explain any three factors that affect the demand for a commodity.

(iii) Why are articles of distinction or the Veblen effect an exception to the law of demand?

Ans : SQP 2018

(i) Demand refers to the various quantities of a commodity that a consumer is both willing and able to purchase at different prices and during a specific time period.

(ii) Factors Affecting Demand:

(a) Price of the Commodity : The price of a commodity is the most critical factor influencing its demand. Generally, there is an inverse relationship between price and quantity demanded. As price increases, the quantity demanded decreases due to reduced satisfaction or afford ability for consumers.

(b) Price of Related Goods : The demand for a given commodity is also affected by changes in the prices of related goods, which can be either substitutes or complements:

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(c) Income of the Consumer : A consumer's income significantly affects demand, depending on whether the commodity is normal or inferior:

(d) Tastes and Preferences : Consumers' tastes, preferences, and habits play a vital role in determining demand. If a commodity becomes fashionable or desirable, its demand increases. Conversely, if it falls out of favor, demand decreases.

(e) Expectation of Future Price Changes : If consumers anticipate a price rise in the future, they tend to purchase more in the present, increasing current demand. For example, if petrol prices are expected to rise, consumers might stock up, leading to higher present demand.

(iii) Veblen Effect is an exceptions to the Law of Demand because Some commodities, such as diamonds, experience increased demand despite higher prices due to their status or prestige value. This phenomenon, called the Veblen effect (or snob appeal"), is an exception to the law of demand. Consumers purchase these goods to display wealth or social status, rather than for intrinsic value.

187. Differentiate between decrease in demand and conraction of demand.

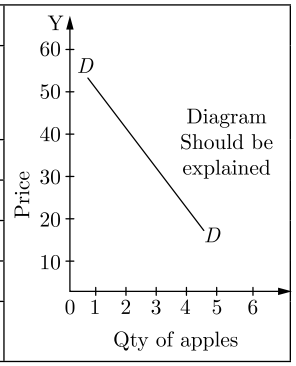
Ans : SQP 2015

Point of Difference	Contraction of Demand	Decrease in Demand
Meaning	Contraction of demand occurs when the quantity demanded falls due to an increase in price, assuming other factors remain constant.	Decrease in demand refers to a reduction in the quantity demanded due to factors other than the price of the commodity itself.
Effect on Demand Curve	It causes an upward movement along the same demand curve.	It results in a leftward shift of the entire demand curve.

188. Draw a demand curve with the help of a hypothetical individual demand schedule.

Ans : MAIN 2014

Demand Schedule for apples	
Price (₹) per kg	**Quantity demanded (kg per week)**
60.0	1
50.00	2
40.00	3
30.00	4
20.00	5



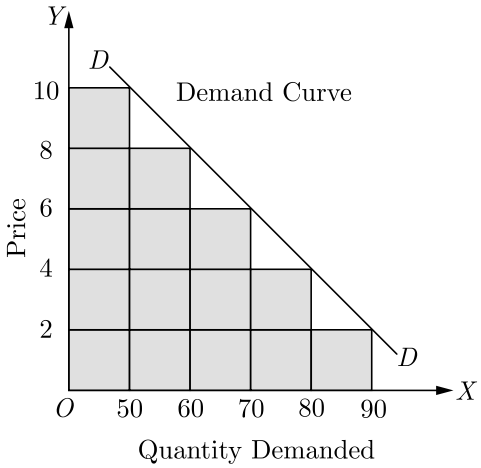
189. State the law of demand. Briefly explain any three determinants for the negative slope of the demand curve.

Ans : COMP 2012

It states that when the price of a product increases, the quantity demanded decreases, and when the price decreases, the quantity demanded increases, provided other factors remain constant. This establishes an inverse relationship between price and quantity demanded.

Demanded Schedule and Demand Curve Showing inverse relation between Price and Quantity Demanded

Price per unit (₹)	Quantity Demanded
10	50
8	60
6	70
4	80
2	90



Determinants of the Negative Slope of the Demand Curve :

(i) Income Effect : When the price of a good falls, the consumer's real income or purchasing power increases, allowing them to buy more of the good.

(ii) Substitution Effect : When the price of a good decreases, it becomes cheaper compared to substitutes, prompting consumers to buy more of it instead of other goods.

(iii) Law of Diminishing Marginal Utility : As a consumer purchases more units of a good, the additional satisfaction or utility from each extra unit decreases, leading them to buy more only if the price is lower.

190. Distinguish between the following:

(i) Extension and Increase in demand.

(ii) Normal goods and Inferior goods.

Ans : SQP 2012

(i)

Point of Difference	Extension of Demand	Increase in Demand
Meaning	A rise in quantity demanded due to a decrease in the price of a good.	A rise in quantity demanded due to factors other than price, like income or preferences.
Cause	Caused by a change in the price of the good.	Caused by changes in factors like income, preferences, or the price of related goods.

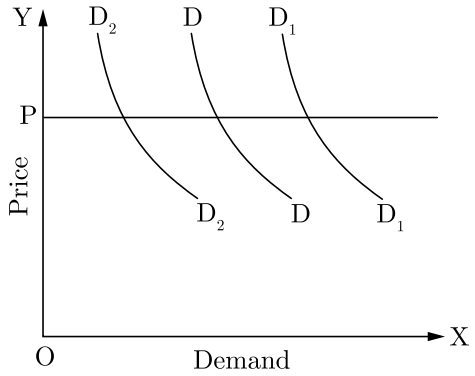
(ii)

Point of Difference	Normal Goods	Inferior Goods
Meaning	Goods whose demand increases as consumer income rises.	Goods whose demand decreases as consumer income rises.
Income Effect	Positive income effect.	Negative income effect.
Examples	Air conditioners, branded clothing.	Coarse grains, generic or low-cost alternatives.

191. (i) What is demand?

(ii) With the help of a hypothetical table, draw the demand curve of a commodity.

(iii) Explain the diagram given below:

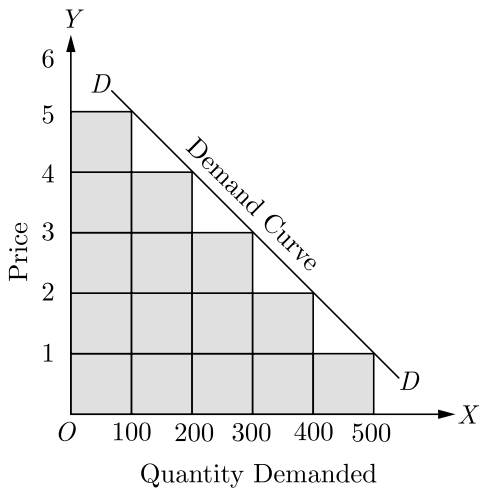


Ans : MAIN 2011

(i) Demand refers to the desire for a good or service, supported by the ability and willingness to pay for it at a given price during a specific time period.

(ii)

Price in dollars	Demand in kg
5	100
4	200
3	300
2	200
1	500



(iii) This diagram shows increase and decrease in demand. At price P, the demand curve is DD. Keeping the price fixed, as other factors determining demand change, the demand curve shifts. For example : If income rises,

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then at the same price, demand will rise, and the demand curve will shift to the right to D_1D(i) If income falls, then demand will decline at the same price, and the demand curve will shift to the left to D_2D(ii)

192. Define demand. Explain clearly two factors which determine demand.

Ans : COMP 2016

Demand refers to the desire for a good or service, backed by the ability and willingness to pay for it. Demand is influenced by factors like time and price.

Determinants of Demand :

(i) Price of the Good : Higher prices typically reduce demand, while lower prices increase it.

(ii) Income of the Consumer : Increased income usually raises demand for normal goods, while demand for inferior goods may decrease.

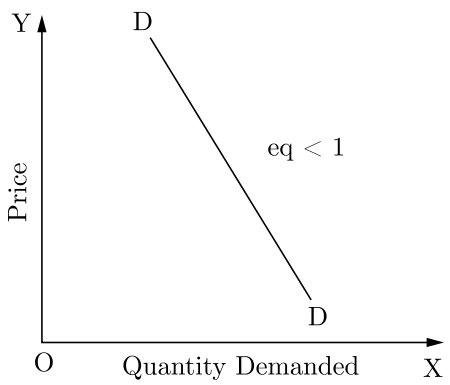
193. (i) What do you understand by relatively inelastic demand?

(ii) Draw a well-labelled diagram to show relatively inelastic demand.

Ans : COMP 2020,2019,2018

(i) Relatively Inelastic Demand : Relatively inelastic demand refers to a situation where the percentage change in quantity demanded is smaller than the percentage change in price. This means that consumers do not significantly reduce their consumption of the commodity even when its price rises or falls. Examples : Essential goods like medicines, salt, or basic food items often exhibit relatively inelastic demand.

(ii)



194. Define elasticity of demand. Explain briefly three determinants of elasticity of demand.

Ans : SQP 2015

Determinants of Elasticity of Demand :

1. Nature of Goods :
   (a) Necessities : Goods like salt and matchboxes have inelastic demand as they are essential and consumed regardless of price changes.
   (b) Luxuries : Items such as air conditioners and furniture have elastic demand, as their purchase can be delayed based on price.
   (c) Comfort Goods : Products like coolers and fans show moderate elasticity.
   (d) Jointly Demanded Goods : Items like pen and ink have moderate elasticity as they are used together.
2. Number of Substitutes Available :
   (a) Goods with close substitutes (e.g., tea and coffee) are more elastic, as consumers can easily switch to alternatives when prices rise.
   (b) Goods without substitutes (e.g., cigarettes) tend to be inelastic as there are no alternatives to shift to.
3. Postponement of Use :
   (a) Goods whose purchase can be postponed (e.g., DVDs) have elastic demand since consumers can delay buying until prices drop.
   (b) Commodities that cannot be postponed (e.g., medicines) exhibit inelastic demand as their consumption is urgent.
4. Variety of Uses of a Commodity :
   (a) Commodities used for multiple purposes (e.g., milk) tend to have elastic demand, as consumers can adjust their usage based on price changes.
   (b) If a commodity has a single use, its demand is inelastic since consumers cannot reduce consumption further.
5. Level of Income :
   (a) Consumers with high incomes have inelastic demand for most goods because price changes do not significantly affect their purchasing behavior.
   (b) For middle-income groups, demand is highly elastic as they are more sensitive to price changes.
6. Amount of Money Spent :
   (a) Goods that constitute a small portion of income (e.g., salt, matchboxes) have inelastic demand, as price changes do not greatly impact consumption.

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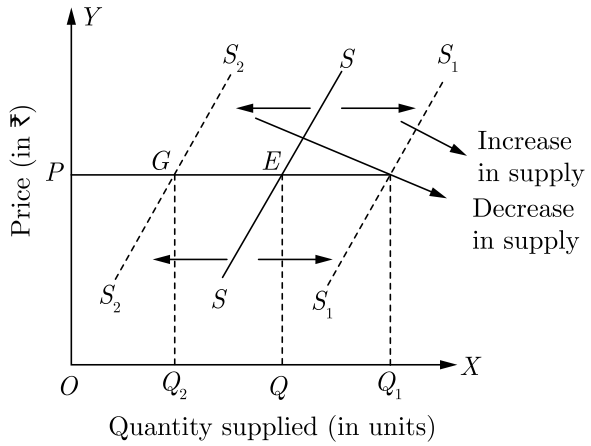
(b) For goods that take up a large portion of income (e.g., clothing, food), demand is elastic because consumers closely monitor spending on such items.

7. Time Period :
   (a) In the short run, demand is inelastic because consumers cannot immediately change habits or consumption patterns.
   (b) In the long run, demand becomes elastic as consumers have more time to adjust their preferences and behaviors.
8. Range of Prices :
   (a) At very high prices, demand is inelastic because only wealthier consumers buy such goods, and price changes do not significantly affect their behavior.
   (b) At lower price ranges, demand is elastic because more consumers are influenced by price changes.
9. Habits of Consumers : Habitual consumption leads to inelastic demand. For example, a chain smoker continues to buy cigarettes even if their price increases.

195. With the help of a diagram, explain the meaning of increase in supply and decrease in supply.

Ans : COMP 2016

Increase in Supply : An increase in supply refers to a rise in the quantity of a commodity supplied due to factors other than the price of the commodity itself.



Decrease in Supply : A decrease in supply refers to a fall in the quantity of a commodity supplied due to factors other than the price of the commodity itself. When supply changes due to variations in other factors (e.g., input costs, taxes, or technology), and the price remains constant, it causes a shift in the supply curve.

(i) A rightward shift indicates an increase in supply.
(ii) A leftward shift indicates a decrease in supply.

These changes result from factors such as changes in input prices, government taxes, and advancements in technology.

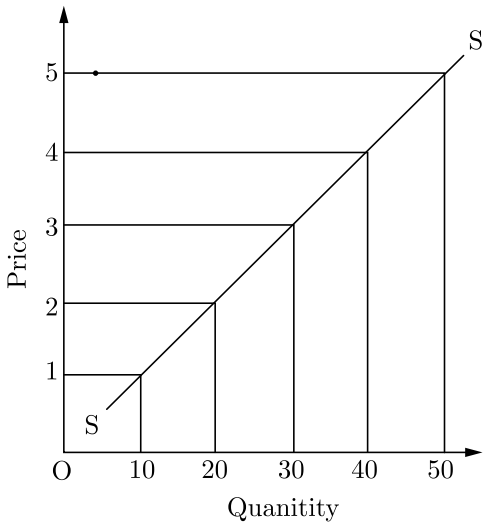
196. State the law of supply. Explain any three factors other than price that determine supply in the market.

Ans : MAIN 2017

Law of Supply: The law of supply states that, other factors remaining constant, the quantity supplied of a commodity increases with an increase in its price and decreases with a decrease in its price.

Supply Schedule

Price (₹)	Quantity (units)
1	10
2	20
3	30
4	40
5	50



The table illustrates that as the price of the commodity increases, producers are willing to supply more units for sale. The supply curve (SS) in the diagram slopes upward from left to right, demonstrating a direct relationship between price and quantity supplied.

Three Factors Other Than Price That Determine Supply :

(i) Goal of the Firm : Firms may pursue different objectives, such as profit maximization, sales

maximization, or market expansion. For example, a sales-oriented firm would supply more goods than a profit-maximizing firm to gain market share.

(ii) Taxation Policy : Imposing heavy taxes on production discourages supply by increasing costs. Conversely, tax concessions encourage producers to increase supply.

(iii) Weather Conditions : Unfavorable weather conditions, such as floods or droughts, reduce the supply of agricultural products, resulting in a lower quantity being supplied at any given price. Conversely, favorable weather conditions lead to an increase in supply.

197. What is meant by shift in supply? Explain three determinants of a leftward shift of the supply curve.

Ans : SQP 2015

Shift in Supply Curve:A shift in supply refers to changes in the quantity supplied due to factors other than the commodity's price, such as changes in input prices or technology.

(i) Increase in Supply : When supply rises e.g., from A to B, the supply curve shifts rightward.

(ii) Decrease in Supply : When supply falls e.g., from C to B, the supply curve shifts leftward.

Determinants of a Leftward Shift in Supply Curve :

(i) Obsolescence of Technology : Outdated technology increases production costs, reducing profitability, and leading to decreased supply.

(ii) Increase in Factor Prices : Higher input costs (e.g., raw materials or labor) raise production expenses, decreasing profits and reducing supply.

(iii) Government Policy : Taxes imposed on production increase costs, lowering profits, and shifting the supply curve to the left.

(iv) Decrease in Number of Producers : A reduction in the number of producers leads to a lower overall supply, causing a leftward shift in the supply curve.

(v) Change in Firm's Goals : If a firm shifts its goal from maximizing sales to maximizing profits, supply may decrease, leading to a leftward shift in the supply curve.

198. Define supply. Explain three reasons for the rightward shift of the supply curve.

Ans : MAIN 2014

Supply refers to the quantity of a commodity that producers are willing and able to offer for sale at various prices during a given period.

Reasons for Rightward Shift in the Supply Curve :

(i) Improvement in Technology : Advanced technology reduces production costs, increasing supply at the same price.

(ii) Reduction in Input Costs : A decrease in the cost of raw materials, wages, or other factors of production reduces expenses, encouraging producers to supply more.

(iii) Government Subsidies : Financial support from the government lowers production costs, motivating producers to increase supply.

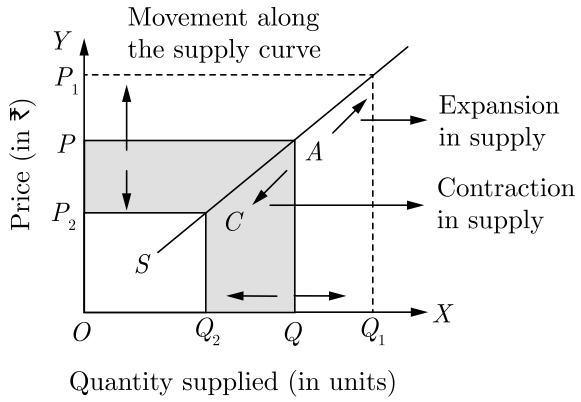
199. Using graphs, distinguish between change in supply and change in quantity supplied.

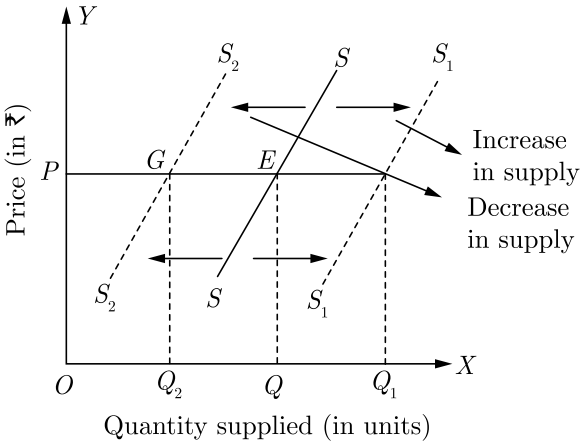
Ans : COMP 2012

Basis	**Change in Quantity Supplied**	**Change in Supply**
Meaning	When the quantity supplied changes due to a change in price, keeping other factors constant, it leads to a movement along the supply curve.	When supply changes due to factors other than price, at the same price, it leads to a shift in the supply curve.
Effect on the Supply Curve	The movement occurs along the same supply curve, either upward (Expansion of supply) or downward (Contraction of supply).	The shift occurs either rightward (Increase in supply) or leftward (Decrease in supply).
Reason	It happens due to changes (increase or decrease) in the price of the commodity.	It occurs due to changes in other factors like input prices, taxes, or technological advancements.

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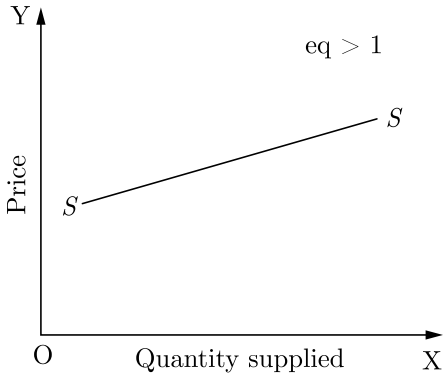
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200. Define and draw relatively elastic supply.

Ans : SQP 2019



Relatively Elastic Supply : This occurs when the percentage change in quantity supplied is greater than the percentage change in price.

201. What is meant by Price Elasticity of Supply? Explain three factors which determine elasticity of supply.

Ans : MAIN 2016

Price Elasticity of Supply : Price elasticity of supply measures the responsiveness of the quantity supplied of a commodity to changes in its price.

Factors Determining Elasticity of Supply :

(i) Cost of Production : Elasticity of supply depends on production costs. If production is governed by the law of increasing costs, supply becomes inelastic.

(ii) Time Period : Time significantly impacts supply elasticity. The longer the time period, the more elastic the supply, as producers can adjust production. In the short run, supply tends to be less elastic.

(iii) Availability and Price of Inputs : Supply elasticity depends on input availability and cost. If inputs are readily available, supply is more elastic. However, when producers are near full capacity, they cannot respond quickly to price increases, making supply less elastic.

(iv) Risk-Taking Ability : If producers are willing to take risks in production, supply becomes more elastic. Conversely, a lack of willingness reduces elasticity.

(v) Laws of Production : If the law of increasing returns applies, supply is more elastic. Under the law of decreasing returns, supply becomes inelastic.

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202. What is meant by elasticity of supply? Using graphs, explain any four degrees of elasticity of supply.

Ans : COMP 2011,2014

Elasticity of supply represents the responsiveness of the quantity supplied of a commodity to a change in its price. It is calculated as :

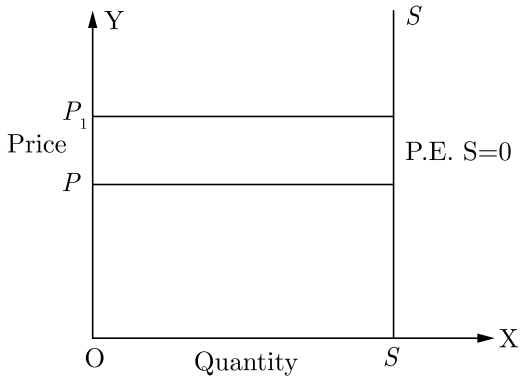
$$e_s = \frac{\text{Proportionate Change in Quantity Supplied}}{\text{Proportionate Change in Price}}$$

$$= \frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

Degrees of Elasticity of Supply:

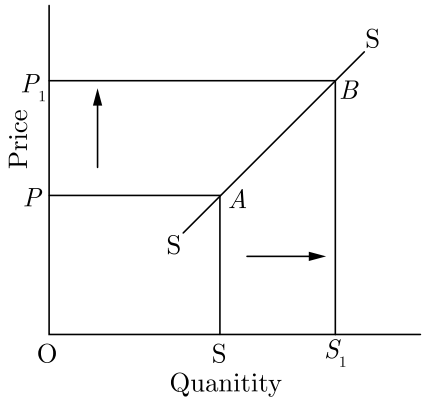
(i) Perfectly Inelastic Supply ($e_s = 0$):The quantity supplied remains unchanged regardless of price changes. Even if the price increases or decreases, the supply does not adjust. In cases where the supply is perfectly inelastic, the price elasticity of supply is zero, and the supplied quantity remains constant regardless of price changes.

Supply Schedule	
Price	Supply
9	8
10	8



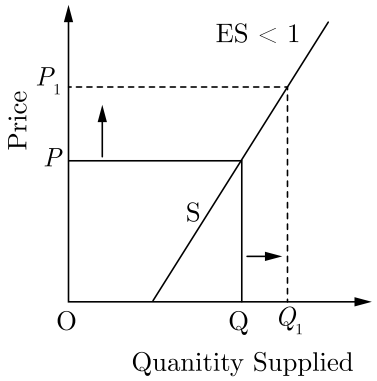
The supply curve is vertical and parallel to the y-axis at point S, indicating no change in quantity supplied regardless of price fluctuations. The quantity supplied remains constant (OS) even if the price is zero or increases to OP_1. This reflects a price elasticity of supply equal to zero.

(ii) Unitary Elasticity ($e_s = 1$) : Supply is said to have unitary elasticity when the percentage change in quantity supplied is exactly equal to the percentage change in price. For example, if the price rises by 50%, the quantity supplied also increases by 50%.



(iii) Relatively Inelastic Supply ($e_s < 1$) : When the percentage change in the quantity supplied of a commodity is less than the percentage change in its price, the supply is considered inelastic or less than unitary elastic. This situation typically occurs with perishable goods, as storing such items for long periods is challenging.

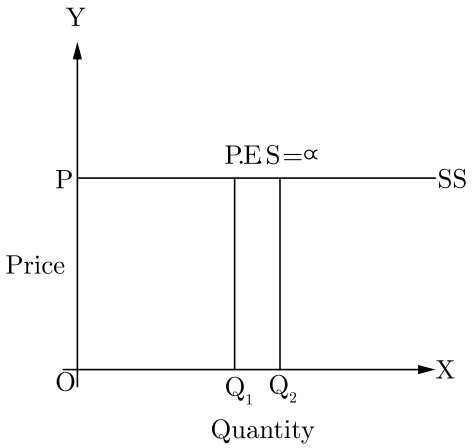
Supply Schedule	
Price	**Supply**
10	10
15	12



The increase in price from P to P_1 is greater than the increase in quantity supplied from Q to Q_1. This indicates that the supply curve (SS) is steeper, representing lower elasticity of supply.

(iv) Perfectly Elastic Supply (e_s = Infinite) : When the quantity supplied of a commodity increases or decreases to any extent with no change or an infinitesimally small change in its price, the supply is considered perfectly elastic. The supply curve in this case is a horizontal line parallel to the x-axis. The supply curve SS, parallel to the x-axis (OX), shows that the quantity supplied changes significantly (from Q_1 to Q_2) even at the same price level (OP).

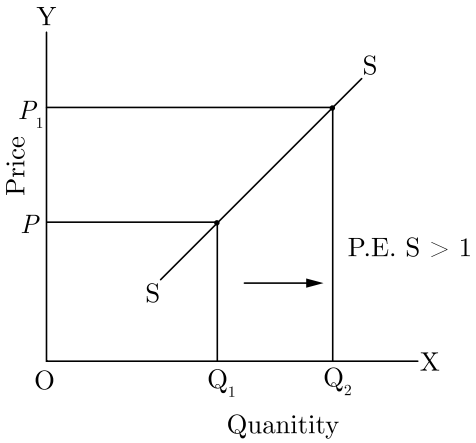
Supply Schedule	
Price	**Supply**
10	10
15	12



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(v) Relatively Elastic Supply ($e_s > 1$) : When the percentage change in quantity supplied of a commodity exceeds the percentage change in its price, the supply is said to be relatively elastic or greater than unitary elastic.

Supply Schedule	
Price	**Supply**
10	10
15	20



203. In the context of understanding market dynamics, how does the distinction between individual demand and market demand curves help consumers and producers in analyzing the overall impact of price changes on goods and services in the economy? Explain with examples.

Ans : SQP 2006

The individual demand curve shows the relationship between the price of a product and the quantity demanded by a single consumer, whereas the market demand curve aggregates the demand of all consumers in the market. This distinction is crucial for analyzing trends at both micro and macro levels. For instance, if a single consumer reduces their demand for fruits due to price hikes, it may not significantly affect the market. However, if many consumers do the same, the market demand curve will shift leftward, indicating a fall in overall demand. Producers analyze market demand curves to forecast changes in sales and adjust production levels accordingly. For example, during festive seasons, market demand for goods like clothing and sweets typically increases, prompting producers to ramp up supply to meet this increased demand.

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204. Given the fluctuations in the supply of agricultural products due to seasonal changes, how does the concept of supply curves and their shifts help in explaining changes in prices? What role do the determinants of supply play in stabilizing market prices in such scenarios?

Ans : MAIN 2007

Agricultural products are highly influenced by seasonal changes, which cause shifts in the supply curve. For instance, during a poor harvest caused by droughts, the supply curve shifts left, leading to reduced supply and higher prices. Conversely, a bumper harvest shifts the curve right, increasing supply and lowering prices.

Determinants like technology, government policies, and cost of production play a critical role in stabilizing prices. For example, subsidies for farmers or technological advancements in irrigation can increase production, shifting the supply curve right and mitigating the impact of seasonal shortages. By understanding these shifts and determinants, policy makers can design interventions such as price controls or stock management to stabilize market prices and ensure consumers have access to essential goods.

205. In situations where consumer preferences for goods change rapidly, how does the law of demand explain the relationship between price and quantity demanded? How do exceptions to this law, such as luxury or essential goods, alter the expected outcomes in the market?

Ans : COMP 2004

The law of demand establishes an inverse relationship between price and quantity demanded, meaning higher prices lead to lower demand, and vice versa. However, exceptions like luxury and essential goods alter these outcomes. Luxury goods (Veblen goods), such as designer handbags or high-end cars, see increased demand with rising prices because higher prices enhance their prestige value.

Conversely, essential goods, like food staples, often have inelastic demand, meaning consumers continue to purchase them regardless of price increases. For example, during a pandemic, the demand for medical essentials like masks and sanitizer may remain high even with price surges. These exceptions highlight the complex nature of consumer behavior and require producers to adopt nuanced pricing strategies.

206. In light of the increasing importance of economic planning, how can policymakers and consumers use the determinants of demand, such as income and tastes, to predict shifts in the demand curve for both normal and inferior goods?

Ans : SQP 2008

Determinants like income and tastes play a pivotal role in predicting shifts in the demand curve. For normal goods, an increase in income shifts the demand curve to the right, indicating higher demand. For example, as income levels rise, consumers might shift from unbranded to branded products, boosting demand for premium goods. In contrast, for inferior goods, such as generic food items, higher income shifts the demand curve left as consumers opt for superior substitutes. Tastes and preferences also drive demand changes. For instance, a growing health consciousness may increase demand for organic food products, shifting the demand curve right for such goods. Policy makers use these insights to design economic policies, like promoting certain industries or adjusting taxation, while businesses align their strategies to cater to changing consumer preferences.

207. During a sudden rise in the prices of commodities, how does the movement along the demand and supply curves differ from a shift in these curves? What factors lead to such movements or shifts in the market?

Ans : COMP 2003

A movement along the demand or supply curve occurs due to a change in the price of the commodity itself. For example, if wheat prices rise, consumers may buy less wheat, causing a movement upward along the demand curve. Similarly, higher prices may encourage producers to supply more, causing a movement upward along the supply curve. In contrast, shifts in the curves are caused by external factors like income changes, production costs, or government policies. For instance, an increase in consumer income shifts the demand curve right, while technological curve right. Understanding these dynamics helps policy makers and businesses predict market behavior and respond effectively to changes in price and availability.

208. In markets characterized by high consumer awareness, how does the concept of elasticity of demand help consumers and producers understand the responsiveness of quantity demanded to changes in price? What factors influence the elasticity of demand in such markets?

Ans : MAIN 2002

Elasticity of demand measures the responsiveness of quantity demanded to price changes. High elasticity means consumers significantly reduce demand when prices rise, while low elasticity indicates minimal changes in demand. For example, luxury goods like smart phones often have elastic demand, as consumers may delay purchases during price hikes. Conversely, necessities like food have inelastic demand, as consumers must buy them regardless of price. Factors influencing elasticity include the availability of substitutes, the necessity of the good, and the proportion of income spent on it. For instance, if there are many substitutes for a product, such as different brands of coffee, its demand will be more elastic. Producers use this information to set prices strategically, while consumers use it to prioritize their spending.

209. In the context of producers responding to changes in market conditions, how does the concept of elasticity of supply explain the responsiveness of quantity supplied to changes in price? What factors play a crucial role in determining the elasticity of supply?

Ans : COMP 2001

Elasticity of supply measures how quickly producers can adjust the quantity supplied in response to price changes. High elasticity indicates that producers can increase supply rapidly when prices rise, while low elasticity suggests slower responses. For instance, in manufacturing, where production can be scaled up quickly, supply is often elastic. In contrast, agricultural goods have inelastic supply due to long growing periods. Key factors influencing elasticity include production time, availability of resources, and spare capacity. For example, a factory operating below capacity can quickly increase production, making its supply elastic. Producers and policy makers consider supply elasticity when planning for market changes, ensuring efficient resource allocation and avoiding shortages or surpluses.

210. Considering the significance of supply chain management, how does understanding the movement and shift of supply curves enable businesses to make better production and pricing decisions during periods of increased consumer demand?

Ans : SQP 2010

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Understanding movements and shifts in supply curves helps businesses optimize their strategies. A movement along the supply curve occurs due to price changes, prompting producers to adjust the quantity supplied. For example, during a festival, higher demand for sweets may lead to higher prices, encouraging producers to supply more. Shifts in the supply curve are caused by external factors like production costs or technology. For instance, adopting efficient machinery can shift the supply curve right, reducing costs and increasing supply. By analyzing these dynamics, businesses can better manage inventory, allocate resources, and set competitive prices to meet consumer demand while maximizing profits.

211. When analyzing the behavior of consumers and producers in a competitive market, how does the percentage method of measuring elasticity of demand and supply help in assessing the sensitivity of market participants to price changes?

Ans : MAIN 2024

The percentage method calculates elasticity by dividing the percentage change in quantity by the percentage change in price. This method provides precise measurements of sensitivity. For example, if a 10% price increase leads to a 20% drop in demand, elasticity is 2, indicating high sensitivity. Similarly, if a 10% price increase results in only a 5% rise in supply, elasticity is 0.5, indicating low sensitivity. These calculations help producers predict consumer reactions to price changes and adjust production accordingly. For policy makers, elasticity metric guide decisions on taxation and subsidies, ensuring market efficiency and consumer welfare.

212. In situations where market dynamics defy conventional trends, how do exceptions to the law of demand, such as Giffen goods or Veblen goods, challenge the basic assumptions of consumer behavior and pricing mechanisms?

Ans : COMP 2023

Giffen goods challenge the law of demand as higher prices increase demand, often due to their status as inferior goods in low-income households. For example, during economic hardships, a price rise in basic staples like rice may lead to higher demand as consumers forgo costlier alternatives. Veblen goods, on the other hand, see demand rise with price because of their status appeal, such as luxury watches or branded handbags. These exceptions demonstrate that factors like income constraints, social status, and psychological behavior significantly influence consumer decisions, requiring businesses to adopt more sophisticated pricing and marketing strategies.

CASE BASED QUESTION

213. Read the extract and answer the following questions.

Maya and her friends observed that people in their neighborhood have started preferring ready-to-cook meal kits due to their busy schedules. Maya decided to start selling meal kits at affordable prices. They have conducted surveys and calculated the potential demand but have yet to analyze the supply side.

(i) Name the economic concept which they have analyzed in the above scenario.

(ii) Explain any four determinants of the concept mentioned in part (i).

Ans : MAIN 2024

(i) The economic concept analyzed in the above scenario is Demand.

(ii) Four determinants of demand are :

(a) Price of the Good : If the price decreases, demand increases, and vice versa.

(b) Income of Consumers : Higher income generally increases demand for normal goods.

(c) Tastes and Preferences : Trends and preferences affect how much consumers want a product.

(d) Price of Related Goods : Demand can change depending on the prices of substitutes or complements.

214. Read the extract and answer the following questions.

Ravi noticed that during the festive season, the prices of decorative lights significantly increased in the market. This was due to a sudden rise in the number of buyers. He analyzed the market demand but did not focus on the supply side.

(i) Name the type of curve that would show the relationship between price and the quantity demanded in the above scenario.

(ii) Explain any four determinants of demand that might have influenced the demand for decorative lights.

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Ans : COMP 2024

(i) The type of curve showing the relationship between price and quantity demanded is the Demand Curve.

(ii) Four determinants of demand are :
- (a) Consumer Income : Changes in income affect purchasing power.
- (b) Population Size : Larger populations can increase overall demand.
- (c) Consumer Preferences : Seasonal or festive preferences can shift demand.
- (d) Expectations of Future Prices : If prices are expected to rise, demand may increase in the short term.

215. Read the extract and answer the following questions.

A new government policy on agricultural subsidies has encouraged farmers to increase the supply of rice. Farmers in the region have started expanding their cultivation area and investing in better equipment. However, changes in market demand for rice have not been considered yet.

(i) Identify the curve which shows the relationship between price and quantity supplied in this scenario.

(ii) Explain any four determinants of supply that may affect the production of rice.

Ans : SQP 2024

(i) The curve that shows the relationship between price and quantity supplied is the Supply Curve.

(ii) Four determinants of supply are :
- (a) Cost of Production : Higher production costs reduce supply.
- (b) Technology : Advanced technology increases supply efficiency.
- (c) Government Policies : Subsidies and taxes can increase or decrease supply.
- (d) Price of Related Goods : If a related good becomes more profitable, supply of the current good may decrease. Read the extract and answer the following questions.

216. Meera and her team started selling handmade candles. They noticed that when the price of their candles was reduced, more customers bought them. However, they are unaware of how price elasticity of demand may affect their revenue.

(i) Name the concept that relates to the responsiveness of demand to changes in price.

(ii) Explain any four factors that affect the elasticity of demand.

Ans : MAIN 2011

(i) The concept that relates to the responsiveness of demand to changes in price is Price Elasticity of Demand.

(ii) Four factors affecting the elasticity of demand are :
- (a) Availability of Substitutes : More substitutes make demand more elastic.
- (b) Nature of the Good : Necessities tend to have inelastic demand, while luxuries are more elastic.
- (c) Proportion of Income Spent : Goods taking a large portion of income are more elastic.
- (d) Time Period : Demand tends to be more elastic over longer time periods.

217. Read the extract and answer the following questions.

Sanjay observed that during the off-season, mango sellers were reducing prices to attract buyers. This led to a significant increase in the quantity demanded. However, the sellers struggled to adjust their supply accordingly.

(i) Identify the economic law that explains the relationship between price and quantity demanded in the above scenario.

(ii) Explain any four exceptions to this economic law.

Ans : SQP 2015

(i) The economic law explaining the relationship between price and quantity demanded is the Law of Demand.

(ii) Four exceptions to the Law of Demand are :
- (a) Giffen Goods : Inferior goods where higher prices may lead to increased demand.
- (b) Veblen Goods : Luxury goods that are desirable because of their high price.
- (c) Speculative Demand : Expectation of further price increases can increase demand even at higher prices.
- (d) Necessities : Certain goods like life-saving drugs may have consistent demand regardless of price.

218. By giving valid reasons, explain which of the following factors will cause a shift in the demand curve:

(i) An increase in the price of substitute goods.

(ii) A decrease in the price of complementary goods.

Ans : COMP 2011

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(i) An increase in the price of substitutes like coffee leads to a higher demand for tea as consumers switch to cheaper alternatives. This causes a rightward shift in the demand curve for tea.
(ii) A decrease in the price of complementary goods like petrol increases the demand for related goods like cars, as they are consumed together.

219. By giving valid reasons, explain which of the following would lead to movement along the supply curve:
(i) A decrease in the price of the product.
(ii) A reduction in input costs due to improved technology.

Ans : SQP 2019

(i) A decrease in the product price causes producers to supply less, as the lower price reduces profitability. This results in a downward movement along the supply curve.
(ii) Improved technology reduces production costs, allowing producers to increase supply at the same price. This causes a shift in the supply curve, not a movement.

220. Rita and Sameer booked tickets for the same train journey from Delhi to Mumbai. Rita booked a sleeper class ticket, whereas Sameer opted for an air-conditioned coach. Why did the railway charge them different ticket prices for the same journey? Explain using the concept of demand and supply.

Ans : COMP 2021

The railway charges different prices based on the type of service. Rita chose a sleeper class, which is a basic service with lower demand and lower costs. Sameer opted for an air-conditioned coach, which provides more comfort and convenience, leading to higher demand and higher operational costs. This price difference reflects the concept of differentiated pricing based on the perceived value of services. Price Variation in Products:

221. A farmer sells mangoes in the local market for Rs. 100 per kilogram, while in the supermarket, the same mangoes are sold at Rs. 150 per kilogram. What factors of demand and supply could explain this price difference?

Ans : MAIN 2000

The difference in mango prices is due to factors such as location and service. In the local market, there is direct access to the product, leading to lower transportation and operational costs. In supermarkets, additional costs such as storage, branding, and convenience fees result in higher prices. This is explained by differences in supply chain and demand in varying market segments

222. Arun notices that as the price of apples decreases in his locality, more people start purchasing apples. Identify and explain the economic concept that is being demonstrated in this situation. Discuss its relevance to the law of demand.

Ans : SQP 2005

This situation demonstrates the law of demand, which states that as the price of a good decreases, the quantity demanded increases, all else being equal. In Arun's locality, lower prices for apples attract more buyers, indicating an inverse relationship between price and quantity demanded.

223. A sudden increase in fuel prices leads to a rise in transportation costs for food grains. As a result, the price of wheat in the market increases. What could be the reason for this shift in the supply curve? Provide an explanation.

Ans : MAIN 2010

The increase in fuel prices raises the cost of transportation, which is a major input for delivering food grains. This leads to a decrease in the quantity of wheat supplied at existing prices, causing a leftward shift in the supply curve. Higher transportation costs reduce supply, leading to an increase in market prices.

224. Luxury handbags see an increase in demand even though their prices are raised. What economic concept is illustrated here? Discuss this as an exception to the law of demand.

Ans : SQP 2014

The luxury handbag market illustrates a Veblen good, where higher prices can increase demand because these goods are seen as status symbols. Consumers perceive higher prices as a reflection of exclusivity and prestige, making this an exception to the law of demand.

225. Why might the demand for salt remain unchanged even if its price doubles, whereas the demand for smart phones may decrease significantly with a small price hike? Use the concept of elasticity of demand to explain.

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Ans : COMP 2017

Salt has inelastic demand because it is a necessity with no close substitutes. Even a significant price increase does not affect its demand. In contrast, smart phones have elastic demand because they are not essential and have many substitutes. A small price hike makes consumers reconsider their purchase, leading to a decrease in demand.

226. By providing valid reasons, classify which of the following will affect individual demand curves:
(i) A consumer's change in income levels.
(ii) Introduction of government subsidies for the product.

Ans : SQP 2011

(i) A rise in income increases the demand for normal goods like branded clothes while decreasing demand for inferior goods like low-cost staples. This causes a shift in the demand curve.
(ii) Government subsidies lower the price of goods, making them more affordable. This increases demand, especially for goods like fertilizers or essential commodities.

227. By giving valid reasons, explain which of the following will result in elastic demand:
(i) Luxuries like branded watches.
(ii) Necessities like salt.

Ans : MAIN 2013

(i) Luxury goods like branded watches have elastic demand because consumers can delay or avoid purchases if prices rise, significantly affecting demand.
(ii) Necessities like salt have inelastic demand, as people buy them regardless of price changes. Elastic demand is not applicable here.

228. By providing valid reasons, classify which of the following factors influence the elasticity of supply:
(i) Availability of storage facilities.
(ii) Production time requirements.

Ans : COMP 2016

(i) The availability of storage facilities makes supply elastic, as producers can store goods and release them when prices rise, adjusting to market demand effectively.
(ii) Production time greatly affects elasticity. For instance, crops take time to grow, making supply inelastic in the short run, whereas factories can adjust production faster, making supply elastic.

229. By giving valid reasons, explain which of the following scenarios reflects a shift versus a movement along the demand curve:
(i) Increase in demand due to advertising.
(ii) Increase in demand due to a price decrease.

Ans : SQP 2012

(i) Advertising increases consumer preference for a product, leading to higher demand at all price levels. This results in a shift of the demand curve to the right.
(ii) A price decrease causes a movement along the demand curve. For example, if the price of apples drops, consumers buy more apples, increasing the quantity demanded.

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CHAPTER 3

MARKET

SUMMARY

1. MEANING OF MARKET

A market refers to a system or arrangement within a specific area where buyers and sellers interact directly or indirectly to trade goods and services.

2. TYPES OF MARKET

Markets can be classified into two broad categories:

1. Perfect Competition
2. Imperfect Competition (including Monopoly, Monopolistic Competition, and Oligopoly).

3. PERFECT COMPETITION

Perfect competition is a market structure characterized by a large number of buyers and sellers dealing in homogeneous or identical goods at a price determined by the market or industry. In this structure, no single buyer or seller has the ability to influence the market price.

3.1 Characteristics of Perfect Competition

1. Numerous Buyers and Sellers : The market has a significant number of participants on both sides.
2. Homogeneous Products : All sellers offer identical goods, with no differentiation.
3. Free Entry and Exit : Firms can enter or exit the market without restrictions.
4. Perfect Knowledge : Both buyers and sellers are well-informed about market conditions.
5. Price Takers : Individual firms have no control over the price and accept the market-determined price.
6. Mobility of Factors of Production : Resources can move freely within the market.
7. No Transportation Costs : There are no additional costs associated with moving goods.
8. No Selling Costs : Advertising or promotional expenses are absent.
9. Uniform Pricing : Goods are sold at a single price across the market.
10. Revenue Curves : Average and marginal revenue curves are horizontal, reflecting constant prices.

4. MONOPOLY

The term "Monopoly" originates from the Greek words "Monos," meaning single, and "Polein," meaning to sell. Thus, "Monopoly" translates to "single seller. A monopoly is a market structure where a single seller dominates the market. There are no close substitutes for the product offered by the firm, and significant barriers prevent the entry of other firms into the market.
Example : Indian Railways, which operates under government control, is an example of a monopoly.

4.1 Features of Monopoly

1. Single Seller and Many Buyers : There is only one producer or seller catering to a large number of buyers.
2. Firms and Industries Are Synonymous : The firm is equivalent to the entire industry.
3. No Close Substitutes : The product offered has no alternatives available to consumers.
4. Downward-Sloping Revenue Curves : Both average revenue (AR) and marginal revenue (MR) curves are negatively sloped.
5. Price Maker : The monopolist sets the price of the product due to lack of competition.
6. Abnormal Profit in the Long Run : Monopolies can earn sustained profits over time.
7. Entry Barriers : High restrictions prevent new firms from entering the market.
8. Price Discrimination : The monopolist can charge different prices for the same product based on consumer segments.
9. Control Over Supply : The monopolist has complete control over the quantity of goods supplied.

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5. MONOPOLISTIC COMPETITION

Monopolistic competition is a type of market structure characterized by the presence of many sellers in the market. While the products offered by these sellers are similar, they are not identical, as each seller differentiates their product in some way.

5.1 Characteristics of Monopolistic Competition

1. Large Number of Firms : The market consists of a substantial number of sellers, each operating independently.
2. Product Differentiation : Sellers compete by offering products that are slightly different in terms of quality, features, or branding, while still being close substitutes.
3. Free Entry and Exit : Firms can enter or exit the market without significant barriers, ensuring competition remains active.
4. Selling Costs : Firms incur expenses on advertising, promotions, and other marketing efforts to distinguish their products from competitors.
5. Non-Price Competition : Sellers focus on aspects like branding, packaging, and customer service to attract buyers instead of competing purely on price.
6. Lack of Perfect Knowledge : Both buyers and sellers do not have complete information about market conditions or competitors' strategies.
7. Downward-Sloping Demand Curve : The demand curve faced by each firm is downward sloping, reflecting that a decrease in price can lead to an increase in sales, but not indefinitely.
8. Less Mobility : Factors of production and resources are not as freely mobile compared to perfectly competitive markets.

6. OLIGOPOLY

The term "Oligopoly" is derived from the Greek words "Oligos," meaning "little" or "small," and "Polein," meaning "to sell." When used in plural, "Oligos" refers to "few."

An oligopoly is a key form of imperfect competition that occurs when there are only a few firms in the market selling a product. These firms may offer products that are either close substitutes or completely homogeneous.

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6.1 Features of Oligopoly

1. Few Sellers : The market is dominated by a small number of firms, each with significant market power.
2. Indeterminate Demand Curve : The demand curve in an oligopoly is not clearly defined due to the interdependence between firms and their strategies.
3. Price Rigidity : Prices tend to remain stable, as firms are hesitant to change prices, fearing reactions from competitors.
4. Barriers to Entry : New firms face significant obstacles in entering the market, such as high startup costs or established brand loyalty.
5. Group Behavior : Firms often behave collectively, making decisions that reflect the actions of the group rather than acting independently.
6. Interdependence : Each firm's decisions, such as pricing or output, are influenced by the actions of other firms in the market.
7. Role of Selling Costs : Firms incur substantial expenses on advertising and promotion to maintain their market share.
8. Non-Price Competition : Competition is focused on factors like quality, branding, and customer service rather than price changes.
9. Nature of Product : Products may be either homogeneous (e.g., steel) or differentiated (e.g., automobiles).

MULTIPLE CHOICE QUESTION

1. Maruti, TATA and Hyundai are examples of which form of market?
(a) Perfect competition
(b) Oligopoly
(c) Monopoly
(d) Duo poly

Ans : MAIN 2024

(b) Oligopoly

Oligopoly is a market structure where a small number of large firms dominate the industry. These firms possess substantial market power and frequently engage in strategic decision-making, such as setting prices and differentiating products, while remaining interdependent on one another's actions.

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2. With reference to Perfect competition form of market, choose the odd one out.
(a) Restricted entry
(b) Perfect knowledge
(c) Homogeneous products
(d) Perfect mobility

Ans : SQP 2024

(a) Restricted entry
In a perfect competition market, free entry signifies the ability of new firms to enter the market easily without encountering major obstacles like high startup costs or legal restrictions. This ensures that existing firms cannot sustain long-term economic profits, as new competitors entering the market drive prices down to the production cost level over time.

3. The firm under perfect competition is a ..... .
(a) Price taker
(b) Price maker
(c) Price stabilizer
(d) Price controller

Ans : COMP 2023

(b) Price maker
Perfect competition involves numerous firms with negligible influence on market prices. Prices are set by the industry, and firms act as price takers.

4. Which market structure has only one seller?
(a) Oligopoly
(b) Monopolistic competition
(c) Monopoly
(d) Perfect competition

Ans : MAIN 2023

(c) Monopoly
In a monopoly, a single seller controls the entire supply of a product.

5. The products which are identical in design, shape, quality, size, colour, packing, etc. are ..... .
(a) Heterogeneous products
(b) Differentiated products
(c) Homogeneous products
(d) Progressive products

Ans : SQP 2023

(c) Homogeneous products
Products under perfect competition are identical, meaning they are homogeneous in nature.

6. Under which form of market structure does a firm have no control over the price of the product?
(a) Monopolistic Competition
(b) Oligopoly
(c) Monopoly
(d) Perfect Competition

Ans : COMP 2024

(d) Perfect Competition
In perfect competition, firms cannot influence the price of goods as the market or industry determines the price. Sellers must accept the prevailing market price.

7. Which of the following is a characteristic of perfect competition?
(a) Free entry and exit
(b) All of the above
(c) Homogeneous products
(d) Large number of buyers and sellers

Ans : SQP 2023

(b) All of the above
Perfect competition is characterized by homogeneous products, a large number of buyers and sellers, and the ease of entry and exit for firms.

8. Which of the following is an example of a perfectly competitive market?
(a) Diamonds
(b) Athletic Shoes
(c) Farming
(d) Soft Drinks

Ans : MAIN 2022

(c) Farming
Farming represents perfect competition as farmers sell identical products, have no control over prices, and adhere to market prices for selling goods.

9. Which of the following is not an essential condition of perfect competition?
(a) Large number of buyers and sellers
(b) Freedom of entry
(c) Homogeneous products
(d) Absence of transport costs

Ans : COMP 2021

(d) Absence of transport costs
In perfect competition, transport costs are not mandatory to be absent as goods are sold locally, reducing the need for transportation.

10. Which market type sells products so identical that buyers do not care from which seller they buy?

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(a) Perfect Competition
(b) Monopoly
(c) Oligopoly
(d) Monopolistic Competition

Ans : MAIN 2024

(a) Perfect Competition
Perfect competition involves homogeneous products sold at a fixed market price, making buyers indifferent about the seller.

11. Firms in perfect competition are price takers because:
(a) Their demand curves are downward sloping
(b) Every firm is very large
(c) No good substitutes exist
(d) Many firms produce identical products

Ans : SQP 2020

(d) Many firms produce identical products
In perfect competition, firms accept market prices because numerous firms sell identical products at uniform prices determined by market demand and supply.

12. Firms are free to enter or leave the market at any time in:
(a) Monopoly (b) Oligopoly
(c) Pure Oligopoly (d) Perfect Competition

Ans : MAIN 2021

(d) Perfect Competition
Perfect competition allows firms to enter and exit freely due to minimal barriers, enabling dynamic market participation.

13. In which market structure is the firm a price taker?
(a) Monopoly
(b) Oligopoly
(c) Monopolistic Competition
(d) Perfect Competition

Ans : COMP 2019

(d) Perfect Competition
In perfect competition, firms must sell their products at the market-determined price as no single firm can influence the price.

14. ..... is essential for a market to be called as perfect competition.
(a) No substitutes
(b) Restricted entry and exit
(c) Differentiated goods
(d) Large number of buyers and sellers

Ans : SQP 2022

(d) Large number of buyers and sellers
Perfect competition is characterized by a large number of buyers and sellers trading in homogeneous products, ensuring that no single participant can influence the market.

15. A large number of sellers selling an identical product implies which of the following?
(a) Horizontal market supply curve
(b) Market chaos
(c) Large losses by the sellers
(d) The inability of any seller to change the price of the product

Ans : MAIN 2017

(d) The inability of any seller to change the price of the product
In a perfectly competitive market, identical products are sold by multiple sellers at a fixed market price. No individual seller can influence the price.

16. Which of the following factors is not a characteristic of perfect competition?
(a) No restrictions on entry into or exit from the market
(b) A large number of buyers and sellers
(c) Individual firms spend a considerable amount on advertising
(d) Well-informed buyers and sellers about product prices

Ans : COMP 2013

(c) Individual firms spend a considerable amount on advertising
Advertising is not a feature of perfect competition because products are homogeneous, and there is no need to differentiate them through marketing efforts.

17. Firms under ..... are free to enter or leave the industry at any time.
(a) Pure Oligopoly
(b) Oligopoly
(c) Monopoly
(d) Perfect Competition

Ans : SQP 2018

(d) Perfect Competition
In perfect competition, firms can freely enter or exit the market without restrictions due to the absence of entry barriers.

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18. If many sellers are selling an identical product, what is the implication of this scenario?
(a) Significant losses for all the sellers
(b) The market supply curve is horizontal
(c) Chaos in the market
(d) The sellers do not have the power to change the price of a product

Ans : MAIN 2018

(d) The sellers do not have the power to change the price of a product
In a perfect competition market, identical products are sold at a fixed price determined by the market. Sellers cannot influence the price due to competition and consumer awareness.

19. Which of the following is true about a price-taking firm?
(a) It is unable to influence the price of the product that it sells.
(b) It is in contact with rival firms to fix the best price that all of them can charge.
(c) It sets the price of a product at any level that they desire.
(d) It is asking the government to set a fixed price for the product.

Ans : COMP 2014

(a) It is unable to influence the price of the product that it sells.
A price-taking firm accepts the price set by the market because its individual production is insignificant compared to the total industry output, ensuring no control over the price.

20. Which of the following has the fewest number of firms?
(a) Perfect Competition
(b) Monopolistic Competition
(c) Oligopoly
(d) Monopoly

Ans : SQP 2016

(d) Monopoly
In a monopoly, there is only one firm that produces or supplies a product or service. The monopolist sets its own prices and does not face any competition.

21. A monopoly is a market with _____:
(a) No barriers to entry
(b) Many suppliers
(c) One supplier
(d) Many substitutes

Ans : MAIN 2012

(c) One supplier
A monopoly exists when there is a single supplier in the market, and no other firms provide the same product or close substitutes. This allows the monopolist to dominate the market.

22. Which of the following is the best example of a natural monopoly?
(a) A patented good
(b) First-class mail
(c) Diamonds
(d) Natural gas

Ans : COMP 2000

(d) Natural gas
Natural gas is an example of a natural monopoly because it arises from natural market conditions, such as high infrastructure costs and economies of scale. In cities like Delhi, there is only one supplier of natural gas (e.g., IGL).

23. The monopoly involves a social cost mainly due to its emphasis on which of the following?
(a) Charging different prices from different categories of buyers for the same product
(b) Earning net profit in all possible situations
(c) Attempting to stall entry of other firms in the market
(d) Lower output at a higher cost in a normal profit situation

Ans : SQP 2015

(d) Lower output at a higher cost in a normal profit situation
Monopoly creates a social cost by restricting output below the level where marginal cost equals marginal revenue. This leads to higher prices, reducing access for some consumers who could otherwise afford the product at lower prices.

24. Which of the following describes a monopoly firm?
(a) Many sellers
(b) No barrier to entry
(c) Many substitutes
(d) Single seller

Ans : MAIN 2011

(d) Single seller
A monopoly firm is characterized by a single seller that supplies the entire market for a product or service. The absence of competition gives the monopolist significant control over prices.

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25. Which of the following would create a natural monopoly?
(a) An exclusive right granted to supply a good or service
(b) Requirement of a government license before the firm can sell the good or service
(c) Technology enabling a single firm to produce at a lower average cost than two or more firms
(d) Ownership of all the available units of a necessary input

Ans : COMP 2009

(c) Technology enabling a single firm to produce at a lower average cost than two or more firms
A natural monopoly arises when one firm can meet the total market demand at a lower cost than multiple firms due to economies of scale. This allows the single firm to dominate the market by offering competitive prices.

26. If the technology for producing a good enables one firm to meet the entire market demand at a lower price than two or more firms could, then that firm has:
(a) Patented the market
(b) A natural monopoly
(c) A legal barrier to entry
(d) Increasing average total costs

Ans : SQP 2005

(b) A natural monopoly
A natural monopoly occurs when a single firm can produce goods at a lower cost due to declining average costs over a wide range of output. This typically happens because of fixed costs being spread over large quantities, making it uneconomical for multiple firms to compete.

27. Which of the following is the best example of a natural monopoly?
(a) The United States Postal Service
(b) Owning the only licensed taxicab in town
(c) Ownership of the only ferry crossing across a river for miles
(d) The cable television company in your hometown

Ans : MAIN 2006

(a) The United States Postal Service
The United States Postal Service is a natural monopoly because of high startup costs and economies of scale, making it the most efficient provider of postal services across the country.

28. Compared to perfect competition, a monopolist is more likely to:
(a) Produce a lower quantity of product
(b) Make a greater amount of economic profit
(c) Charge a higher price
(d) All of the above

Ans : COMP 2007

(d) All of the above
Monopolists restrict output to raise prices and maximize profits. This leads to reduced quantities and higher prices than under perfect competition, allowing monopolists to earn greater economic profits.

29. In a monopoly, which of the following is not true?
(a) There is freedom of entry and exit into the industry in the long run
(b) Products are differentiated
(c) The firm is a price taker
(d) There is one main seller

Ans : SQP 2004

(d) There is one main seller
Monopolies are characterized by a single firm dominating the market with no close substitutes for its products. Entry into the market is restricted, and the firm acts as a price maker rather than a price taker.

30. The inefficiency associated with monopoly is due to:
(a) Overproduction of a good
(b) Underproduction of a good
(c) The monopoly's losses
(d) The monopoly's profits

Ans : MAIN 2008

(b) Underproduction of a good
Monopolists reduce output below the socially optimal level to maximize profits, resulting in al locative inefficiency. This underproduction leads to higher prices and lower availability for consumers.

31. Which of the following describes a monopoly firm?
(a) Many sellers
(b) Single seller
(c) No barrier to entry
(d) Many substitutes

Ans : COMP 2003

(b) Single seller

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32. A monopoly firm consists of a single seller supplying the entire market. The absence of competition allows the firm to control pricing and production decisions. Firms in a monopolistic market are price _____:
(a) Acceptors
(b) Givers
(c) Makers
(d) Takers

Ans : SQP 2002

(c) Makers
Firms in a monopolistic market set their own prices within a certain range, as their products are differentiated and not perfect substitutes. This allows them to influence prices, making them price makers.

33. In a monopolistic competition, the products of different sellers are assumed to be:
(a) Identical perfect substitutes
(b) Either identical or differentiated
(c) Unique without any close or perfect substitutes
(d) Similar but slightly different

Ans : MAIN 2001

(d) Similar but slightly different
In monopolistic competition, sellers offer products that are similar but with slight differences in quality, design, or branding. This differentiation helps them compete.

34. What is the difference between perfect competition and monopolistic competition?
(a) Perfect competition has barriers to entry, while monopolistic competition does not.
(b) In perfect competition, firms produce slightly different goods, while in monopolistic competition, firms produce identical goods.
(c) Perfect competition has no barriers to entry, while monopolistic competition does.
(d) Perfect competition has a large number of small firms, while monopolistic competition does not.

Ans : MAIN 2024

(c) Perfect competition has no barriers to entry, while monopolistic competition does.
In perfect competition, there are no restrictions on the entry or exit of firms. However, in monopolistic competition, certain barriers like brand loyalty or advertising may exist.

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35. Which of the following market types has a large number of firms that sell similar but slightly different products?
(a) Monopoly
(b) Perfect Competition
(c) Monopolistic Competition
(d) Oligopoly

Ans : COMP 2023

(c) Monopolistic Competition
Monopolistic competition involves many firms selling differentiated products. Although similar, these products are not perfect substitutes, creating competition among sellers.

36. An industry with a large number of firms, differentiated products, and free entry and exit is called:
(a) Oligopoly
(b) Perfect Competition
(c) Monopoly
(d) Monopolistic Competition

Ans : COMP 2010

(d) Monopolistic Competition
Monopolistic competition features many sellers offering differentiated products, with minimal barriers to entry and exit, making it distinct from other market structures.

37. In monopolistic competition, each firm supplies a small part of the market. This occurs because:
(a) There are barriers to entry
(b) Firms produce differentiated products
(c) There are no barriers to entry
(d) There are a large number of firms

Ans : SQP 2022

(d) There are a large number of firms
The presence of a large number of firms in monopolistic competition ensures that no single firm dominates the market. Each firm supplies a small portion of the total output.

38. In monopolistic competitive markets, the buyers have …….:
(a) Imperfect knowledge
(b) Liberty to compare various brands
(c) Access to several brands
(d) Imperfect choice

Ans : MAIN 2021

(a) Imperfect knowledge
In monopolistic competition, buyers have limited knowledge about the products, necessitating

advertising and promotions by sellers to inform consumers about their offerings.

39. Which of the following is an example of a monopolistically competitive industry?
(a) Colleges and universities
(b) Wheat farming
(c) The local electricity producer
(d) A clothing brand

Ans : COMP 2020

(d) A clothing brand
A clothing brand operates in a monopolistically competitive industry as it offers differentiated products and competes with multiple other sellers while allowing room for entry and exit.

40. All of the following are examples of product differentiation in monopolistic competition EXCEPT:
(a) Acceptance of more credit cards than the competition
(b) New and improved packaging
(c) Location of the retail store
(d) Lower price

Ans : SQP 2019

(d) Lower price
In monopolistic competition, differentiation is achieved through features like branding, packaging, or location. Lowering prices is not a method of differentiation; it is a pricing strategy typically used in perfect competition.

41. Which of the following market types has a large number of firms that sell similar but slightly different products?
(a) Monopoly
(b) Oligopoly
(c) Monopolistic Competition
(d) Perfect Competition

Ans : MAIN 2021

(c) Monopolistic Competition
Monopolistic competition features a large number of firms offering differentiated products that are similar but not identical. This allows for competition based on factors other than price.

42. In monopolistic competitive markets, the buyers have ……..:
(a) Imperfect choice
(b) Access to several brands
(c) Liberty to compare various brands
(d) Imperfect knowledge

Ans : COMP 2021

(d) Imperfect knowledge
Buyers in monopolistic competition have limited knowledge about the products available in the market. Sellers often rely on advertising to inform and persuade consumers to buy their differentiated products.

43. Which of the following forms of market organization assumes that entry and exit of firms is cost less?
(a) Differentiated oligopoly
(b) Duo poly
(c) Monopolistic Competition
(d) Pure Oligopoly

Ans : SQP 2017

(c) Monopolistic Competition
Monopolistic competition assumes free entry and exit of firms because there are minimal barriers to entry. This allows new firms to join the market and existing firms to leave if they are unprofitable.

44. Which of the following markets has only a few competing firms?
(a) Monopoly
(b) Oligopoly
(c) Monopolistic competition
(d) Perfect competition

Ans : MAIN 2013

(b) Oligopoly
Oligopoly is a market structure characterized by a small number of dominant firms controlling the market. Examples of oligopoly include industries like cable TV.

45. The refrigerator industry is an example of:
(a) Monopolistic competition
(b) Monopoly
(c) Oligopoly
(d) Perfect competition

Ans : COMP 2018

(c) Oligopoly
The refrigerator industry is classified as an oligopoly because a few large firms dominate the market, producing similar but slightly differentiated products.

46. The petroleum industry is an example of:
(a) Monopolistic competition
(b) Pure oligopoly
(c) Duo poly
(d) Differentiated oligopoly

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Ans : SQP 2014

(b) Pure oligopoly
The petroleum industry is a pure oligopoly because countries with oil reserves collectively decide on the supply and pricing, influencing global oil prices directly.

47. In the oligopoly form of market, which of the following is not true?
(a) Non-price competition
(b) Small number of huge firms
(c) Oligopoly
(d) None of the above

Ans : MAIN 2016

(d) None of the above
All the statements listed are true for oligopoly markets, where a small number of large firms dominate, employing strategies like non-price competition to maintain their market share.

48. In an oligopoly market, there is price rigidity because:
(a) No firm changes its price for fear of retaliation by other firms
(b) Selling cost
(c) Difficult entry of a new firm
(d) None of the above

Ans : COMP 2012

(a) No firm changes its price for fear of retaliation by other firms
In an oligopoly, firms refrain from changing prices due to the risk of competitive retaliation, leading to price rigidity and stable market prices over time.

49. Zero degree of product differentiation is found under:
(a) Monopoly
(b) Monopolistic competition
(c) Oligopoly
(d) None

Ans : MAIN 2015

(d) None
Zero degree of product differentiation occurs in a perfectly competitive market, where all products are homogeneous, and no firm has control over the price.

50. Basic difference between monopolistic competition and oligopoly is:
(a) Number of buyers
(b) Barriers to entry
(c) Price discrimination
(d) Number of firms

Ans : SQP 2000

(d) Number of firms
The main distinction lies in the number of firms. Monopolistic competition features many firms, while oligopoly is controlled by a few dominant firms.

51. **Assertion (A) :** In a perfectly competitive market, firms are price takers and cannot influence the market price.
Reason (R) : Perfect competition is characterized by a large number of buyers and sellers, with identical products being sold.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2011

(a) Both A and R are true, and R is the correct explanation of A.
In perfect competition, identical products and numerous participants ensure no single firm can influence price. Firms are price takers because market price is determined by overall supply and demand.

52. **Assertion (A) :** A monopolist can set both the price and the quantity of the good it produces.
Reason (R) : Monopoly arises when there is only one seller in the market with no close substitutes for the product.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2009

(c) A is true, but R is false.
A monopolist can set the price or the quantity, but not both simultaneously, as the market determines one based on the other. The reason correctly describes monopoly conditions but does not explain the assertion.

53. **Assertion (A) :** In monopolistic competition, firms compete on both price and non-price factors.
Reason (R) : Differentiated products and brand loyalty are key features of monopolistic competition.

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(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2005

(a) Both A and R are true, and R is the correct explanation of A.
Firms in monopolistic competition use non-price factors like product differentiation and branding to attract customers, in addition to competing on price, making the reason a correct explanation of the assertion.

54. **Assertion (A) :** Oligopoly is characterized by mutual interdependence among firms.
Reason (R) : In an oligopoly, decisions made by one firm regarding pricing or output influence the actions of competing firms.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2006

(a) Both A and R are true, and R is the correct explanation of A.
Firms in an oligopoly consider competitors' likely reactions when setting prices or output because their decisions directly impact rivals, creating mutual interdependence.

55. **Assertion (A) :** Perfect competition and monopoly are at opposite ends of the market structure spectrum.
Reason (R) : Perfect competition has no barriers to entry, while monopoly exists due to high barriers to entry.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2007

(a) Both A and R are true, and R is the correct explanation of A.
Perfect competition allows free entry and exit of firms, whereas monopolies are created by barriers such as legal restrictions or high startup costs, placing them at opposite ends of the market spectrum.

56. **Assertion (A) :** In perfect competition, no individual buyer or seller can influence the market price.
Reason (R) : Perfect competition is characterized by homogeneous products and perfect information.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2004

(a) Both A and R are true, and R is the correct explanation of A.
Homogeneous products and perfect information prevent any buyer or seller from influencing price, as all participants are aware of market conditions, making the reason correct for the assertion.

57. Study the relationship in the first pair of terms and complete the second pair.
(i) Perfect Competition : Large number of buyers and sellers.
(ii) Monopoly : _____.
(a) Few buyers
(b) One seller
(c) Many sellers
(d) Infinite buyers

Ans : COMP 2008

(b) One seller
Monopoly refers to a market with a single seller dominating the market, with no close substitutes for the product and high barriers to entry.

58. Study the relationship in the first pair of terms and complete the second pair.
(i) Oligopoly : Few dominant sellers.
(ii) Monopolistic Competition : _____.
(a) Single seller
(b) Few sellers
(c) Many sellers with differentiated products
(d) Many buyers

Ans : SQP 2003

(c) Many sellers with differentiated products
Monopolistic competition features many sellers offering similar but slightly differentiated products, allowing for consumer choice while maintaining competition.

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59. Study the relationship in the first pair of terms and complete the second pair.
(i) Perfect Competition : Homogeneous products.
(ii) Monopoly : _____.
(a) Differentiated products
(b) Unique product
(c) Standardized product
(d) Many substitutes

Ans : MAIN 2002

(b) Unique product
In a monopoly, the seller provides a unique product with no close substitutes, giving the firm complete control over pricing.

60. Study the relationship in the first pair of terms and complete the second pair.
(i) Oligopoly : Interdependence among firms.
(ii) Perfect Competition : _____.
(a) No interdependence
(b) High barriers to entry
(c) Collusion among firms
(d) Few firms

Ans : COMP 2001

(a) No interdependence
In perfect competition, no single firm can influence market prices or decisions due to the large number of sellers offering identical products.

61. Study the relationship in the first pair of terms and complete the second pair.
(i) Monopoly : No close substitutes for the product.
(ii) Oligopoly : _____.
(a) Many substitutes
(b) Close substitutes offered by a few firms
(c) No substitutes
(d) Differentiated goods by one seller

Ans : SQP 2010

(b) Close substitutes offered by a few firms
In an oligopoly, a few firms dominate the market, offering products that may be close substitutes, leading to competitive behavior.

62. Study the relationship in the first pair of terms and complete the second pair.
(i) Monopoly : High barriers to entry.
(ii) Perfect Competition : _____.
(a) Few barriers to entry
(b) High barriers to entry
(c) No barriers to entry
(d) Limited entry

Ans : MAIN 2024

(c) No barriers to entry
Perfect competition allows free entry and exit of firms, ensuring no single firm has control over the market and maintaining perfect resource mobility.

63. Study the relationship in the first pair of terms and complete the second pair.
(i) Monopolistic Competition : Product differentiation.
(ii) Oligopoly : _____.
(a) Homogeneous products only
(b) Both homogeneous and differentiated products
(c) Unique product only
(d) Standardized goods

Ans : COMP 2023

(b) Both homogeneous and differentiated products
Oligopoly markets can consist of either homogeneous goods (e.g., steel) or differentiated goods (e.g., automobiles), allowing competition among few dominant firms.

64. Study the relationship in the first pair of terms and complete the second pair.
(i) Perfect Competition : No price control.
(ii) Monopoly : _____.
(a) Limited price control
(b) Full price control
(c) Joint price control
(d) No control over prices

Ans : SQP 2022

(b) Full price control
A monopoly has complete control over pricing due to the absence of competition and substitutes, allowing the seller to act as a price maker.

65. Study the relationship in the first pair of terms and complete the second pair.
(i) Perfect Competition : Uniform pricing by all sellers.
(ii) Monopolistic Competition : _____.
(a) Uniform pricing
(b) Slightly different pricing for similar products
(c) Same pricing with collusion
(d) No pricing power

Ans : MAIN 2021

(b) Slightly different pricing for similar products
In monopolistic competition, firms charge slightly different prices based on product differentiation and branding, despite the products being close substitutes.

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66. Study the relationship in the first pair of terms and complete the second pair.
(i) Monopoly : Single seller, no competition.
(ii) Oligopoly : _____.
(a) High competition with many sellers
(b) Interdependence among few sellers
(c) No competition among firms
(d) Single seller dominating

Ans : COMP 2020

(b) Interdependence among few sellers
Oligopoly markets have a few dominant firms that are interdependent, meaning each firm's decisions regarding price or output affect the others.

67. "A market where a single seller dominates and determines the price of a product."
Which type of market is being described?
(a) Perfect competition.
(b) Monopoly.
(c) Oligopoly.
(d) Monopolistic competition.

Ans : SQP 2024

(b) Monopoly.
A monopoly is a market structure where a single seller controls the entire supply of a product or service, giving them the power to determine prices without competition.

68. "In which type of market do sellers sell identical products, and no single buyer or seller can influence the price?"
(a) Perfect competition.
(b) Monopoly.
(c) Oligopoly.
(d) Monopolistic competition.

Ans : MAIN 2023

(a) Perfect competition.
Perfect competition is a market structure with many buyers and sellers trading identical products. Prices are determined by market forces, as no participant has significant influence over the market.

69. "Automobile companies often dominate a market with only a few sellers and significant barriers to entry."
Identify the type of market.
(a) Perfect competition.
(b) Monopoly.
(c) Oligopoly.
(d) Monopolistic competition.

Ans : COMP 2022

(c) Oligopoly.
An oligopoly exists when a few firms dominate a market, often selling similar or differentiated products. Examples include the automobile and airline industries.

70. "A market where many sellers sell similar but differentiated products, such as toothpaste or shampoo."
Which type of market is described?
(a) Perfect competition.
(b) Monopoly.
(c) Oligopoly.
(d) Monopolistic competition.

Ans : SQP 2021

(d) Monopolistic competition.
Monopolistic competition involves many sellers offering slightly differentiated products. Firms compete on branding, quality, and features, which attract buyers despite the products being substitutes.

71. "Which feature is unique to perfect competition compared to other market types?"
(a) Price-making firms.
(b) Homogeneous products.
(c) High barriers to entry.
(d) Few sellers.

Ans : MAIN 2020

(b) Homogeneous products.
Perfect competition uniquely features homogeneous products, meaning goods are identical in quality and features, leaving no room for differentiation among sellers.

72. "In which type of market do firms face significant competition but differentiate their products through branding and quality?"
(a) Perfect competition.
(b) Monopoly.
(c) Monopolistic competition.
(d) Oligopoly.

Ans : COMP 2019

(c) Monopolistic competition.
In monopolistic competition, firms compete with slightly differentiated products. Branding, quality, and features are used to attract customers despite the availability of substitutes.

73. "In which market structure do firms often engage in price wars and non-price competition?"

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(a) Perfect competition.
(b) Monopoly.
(c) Oligopoly.
(d) Monopolistic competition.

Ans : SQP 2017

(c) Oligopoly.
Oligopolies are characterized by few dominant firms that compete fiercely. Price wars and non-price strategies like advertising are common due to the interdependence of firms.

74. "In a monopoly, which of the following is not a characteristic?"
(a) A single seller.
(b) High barriers to entry.
(c) Homogeneous products.
(d) No close substitutes.

Ans : MAIN 2013

(c) Homogeneous products.
In monopolies, the product offered may or may not be homogeneous, but the defining feature is the absence of close substitutes and a single seller dominating the market.

75. "In which market structure are firms considered 'price takers'?"
(a) Monopoly.
(b) Oligopoly.
(c) Monopolistic competition.
(d) Perfect competition.

Ans : COMP 2018

(d) Perfect competition.
In perfect competition, firms are price takers as market forces of supply and demand determine prices, leaving no scope for individual firms to influence the market price.

76. "Which type of market can include products like utilities such as water supply or electricity?"
(a) Monopoly.
(b) Perfect competition.
(c) Oligopoly.
(d) Monopolistic competition.

Ans : SQP 2014

(a) Monopoly.
Utilities like water and electricity often operate under monopolistic conditions because of high infrastructure costs and the impracticality of competition, resulting in a single supplier dominating the market.

77. Ms. Aruna explained a market where 'there are a large number of buyers and sellers dealing in homogeneous products, and no single buyer or seller can influence the market price.' What is this market called?
(a) Monopoly
(b) Perfect competition
(c) Monopolistic competition
(d) Oligopoly

Ans : MAIN 2016

(b) Perfect competition
Perfect competition is a market structure with many buyers and sellers trading identical products. No single participant can influence the market price, as it is determined by supply and demand.

78. Mr. Ravi described a market where 'a single seller controls the entire supply of a good or service, and there are no close substitutes available.' What is this market called?
(a) Oligopoly
(b) Monopolistic competition
(c) Monopoly
(d) Perfect competition

Ans : COMP 2012

(c) Monopoly
In a monopoly, one seller dominates the market, with no close substitutes for the product, leading to significant price-setting power.

79. Ms. Priya discussed a market structure where 'a few large firms dominate the market, often producing similar or slightly differentiated products.' What is this market structure called?
(a) Perfect competition
(b) Monopoly
(c) Oligopoly
(d) Monopolistic competition

Ans : SQP 2000

(c) Oligopoly
An oligopoly consists of a few large firms controlling the market, often engaging in competition based on prices, products, or marketing.

80. Mr. Suresh explained a market where 'many sellers compete with differentiated products that are not perfect substitutes for each other.' What is this market called?
(a) Monopoly
(b) Oligopoly
(c) Perfect competition
(d) Monopolistic competition

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Ans : MAIN 2015

(d) Monopolistic competition
Monopolistic competition features many sellers offering similar but slightly differentiated products, giving them some control over pricing due to brand preferences.

81. Ms. Neha discussed that 'in this market structure, firms can freely enter or exit the market, and products are identical.' Which market structure does this describe?
(a) Perfect competition
(b) Monopoly
(c) Monopolistic competition
(d) Oligopoly

Ans : MAIN 2011

(a) Perfect competition
Perfect competition allows free entry and exit of firms, with identical products and no barriers, ensuring firms cannot influence prices individually.

82. Mr. Ramesh explained a market where 'firms face no competition because they are the sole providers of a good or service due to legal, natural, or technological barriers to entry.' What is this market structure called?
(a) Perfect competition
(b) Oligopoly
(c) Monopoly
(d) Monopolistic competition

Ans : COMP 2009

(c) Monopoly
A monopoly exists when a single firm dominates the market, and entry barriers prevent other firms from competing. Examples include public utilities like electricity supply.

83. Ms. Kavita described a market structure where 'firms compete not only on price but also through advertising, branding, and product features.' What is this market called?
(a) Perfect competition
(b) Monopolistic competition
(c) Monopoly
(d) Oligopoly

Ans : SQP 2005

(b) Monopolistic competition
In monopolistic competition, firms differentiate their products through branding, advertising, or quality, giving them pricing power despite competition.

84. Mr. Arvind stated that 'this market structure is characterized by a few dominant firms, and actions of one firm directly influence others.' What is this structure?
(a) Oligopoly
(b) Monopoly
(c) Perfect competition
(d) Monopolistic competition

Ans : MAIN 2006

(a) Oligopoly
Oligopoly involves interdependence among a few large firms, as the actions of one firm, such as price changes, can significantly impact competitors.

85. Ms. Sonia explained that 'in this market structure, prices are determined entirely by supply and demand, with no government intervention or monopolistic control.' What is this market?
(a) Monopolistic competition
(b) Perfect competition
(c) Oligopoly
(d) Monopoly

Ans : COMP 2007

(b) Perfect competition
In perfect competition, the market price is determined solely by supply and demand, with no single buyer or seller influencing it due to the large number of participants.

86. Mr. Sharma mentioned a market where 'firms often collaborate informally or formally to control prices or output, limiting competition.' What is this scenario called?
(a) Monopolistic competition
(b) Oligopoly
(c) Monopoly
(d) Perfect competition

Ans : SQP 2004

(b) Oligopoly
In an oligopoly, firms may form cartels or engage in tacit collusion to control prices and output, reducing competition and increasing profits.

87. **Statement 1 :** A perfectly competitive market is characterized by a large number of buyers and sellers, with no single buyer or seller influencing the price.
Statement 2 : Monopolistic competition involves firms selling identical products with no differentiation.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.

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(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2008

(a) Statement 1 is true and Statement 2 is false.
Perfect competition features many buyers and sellers, and no price control. In monopolistic competition, products are differentiated, which allows for some price-setting ability.

88. **Statement 1 :** In a monopoly, a single seller dominates the market and determines the price of the product.
Statement 2 : An example of monopoly is the Indian Railways, as it has no close substitutes.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2003

(c) Both Statements 1 and 2 are true.
A monopoly is defined by a single seller with control over price and supply. Indian Railways is a classic example of a monopoly due to its lack of substitutes.

89. **Statement 1 :** Oligopoly is a market structure where a few large firms dominate the market, often leading to interdependence in decision-making.
Statement 2 : Examples of oligopolist markets include the automobile and airline industries.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2002

(c) Both Statements 1 and 2 are true.
Oligopoly involves a few firms controlling the market, and interdependence is common. The automobile and airline industries are prime examples of oligopolist markets.

90. **Statement 1 :** Perfect competition allows firms to earn supernormal profits in the long run.
Statement 2 : Monopolistic competition allows firms to earn normal profits in the long run due to the entry of new competitors.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2001

(b) Statement 1 is false and Statement 2 is true.
Perfect competition results in normal profits in the long run, as price equals marginal cost. In monopolistic competition, entry of new firms erodes supernormal profits over time.

91. **Statement 1 :** Monopolistic competition combines features of both perfect competition and monopoly.
Statement 2 : Differentiation of products is a key feature of monopolistic competition, which allows firms to have some control over pricing.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2010

(c) Both Statements 1 and 2 are true.
Monopolistic competition blends competitive and monopolistic features. Product differentiation enables firms to influence pricing, unlike in perfect competition where prices are determined by market forces.

92. **Statement 1 :** Perfect competition ensures that goods are homogeneous, leaving no scope for product differentiation.
Statement 2 : In a monopolistic competition market, firms compete by differentiating their products through quality, branding, or packaging.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2024

(c) Both Statements 1 and 2 are true.
Perfect competition assumes homogeneous goods, ensuring price uniformity. Monopolistic competition, however, allows differentiation, giving firms the ability to compete beyond pricing strategies.

93. **Statement 1 :** Under perfect competition, firms are price makers as they can determine the price of their products.
Statement 2 : A monopoly firm acts as a price maker due to the absence of competition.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

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Ans : COMP 2023

(b) Statement 1 is false and Statement 2 is true.
In perfect competition, firms are price takers, as the market sets the price. In contrast, monopoly firms are price makers because they control supply and face no competition.

94. **Statement 1 :** In an oligopolist market, the actions of one firm significantly affect other firms in the market.
Statement 2 : An oligopoly always results in a price war among the competing firms.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2022

(a) Statement 1 is true and Statement 2 is false.
Firms in an oligopoly are interdependent, but a price war is not a certainty. Cooperation or collusion can also occur, stabilizing prices.

95. **Statement 1 :** The airline industry is an example of perfect competition.
Statement 2 : Perfect competition requires easy entry and exit of firms in the market.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2021

(b) Statement 1 is false and Statement 2 is true.
The airline industry is an example of oligopoly, not perfect competition. Perfect competition involves unrestricted entry and exit, which is not the case for industries like airlines.

96. **Statement 1 :** Monopolistic competition leads to higher prices compared to perfect competition.
Statement 2 : Firms in monopolistic competition enjoy short-term supernormal profits due to product differentiation.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2020

(c) Both Statements 1 and 2 are true.
Product differentiation in monopolistic competition allows firms to charge higher prices. In the short run, firms can earn supernormal profits, but competition erodes these profits over time.

97. **Statement 1 :** In a monopoly, barriers to entry protect the firm from competition.
Statement 2 : Barriers to entry are absent in monopolistic competition, allowing new firms to enter easily.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2019

(c) Both Statements 1 and 2 are true.
A monopoly uses entry barriers to maintain market dominance. In monopolistic competition, entry is relatively easy, leading to increased competition and normal profits in the long run.

98. **Statement 1 :** Perfect competition achieves al locative efficiency as goods are produced at the lowest possible cost.
Statement 2 : Monopoly also achieves al locative efficiency due to price control by the firm.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2017

(a) Statement 1 is true and Statement 2 is false.
Perfect competition ensures resources are allocated efficiently. Monopoly fails to achieve al locative efficiency due to higher prices and restricted output, leading to welfare loss.

99. **Statement 1 :** In monopolistic competition, advertising plays a significant role in promoting products.
Statement 2 : Advertising is unnecessary in perfect competition as products are homogeneous.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2013

(c) Both Statements 1 and 2 are true.
Product differentiation in monopolistic competition makes advertising crucial. In perfect competition, homogeneous products eliminate the need for advertising, as competition is solely price-based.

100. **Statement 1 :** Firms in an oligopoly may collude to fix prices, leading to reduced competition.

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Statement 2 : Collusion in oligopoly is illegal in all countries.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2018

(a) Statement 1 is true and Statement 2 is false.
Oligopolist firms may collude to control prices and reduce competition. However, the legality of collusion varies across countries, with some allowing regulated forms of cooperation.

101. **Statement 1 :** Monopolistic competition leads to under utilization of resources due to excess capacity.
Statement 2 : Perfect competition ensures optimal utilization of resources as firms produce at the minimum average cost.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2014

(c) Both Statements 1 and 2 are true.
In monopolistic competition, excess capacity leads to resource under utilization. Perfect competition ensures full resource utilization, as firms produce at the most efficient output level.

102. "Perfect competition is characterized by a large number of buyers and sellers dealing in homogeneous products." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2016

(i) True
Perfect competition has many buyers and sellers, and the products are identical, ensuring no individual can influence the market price.

103. "In a monopoly, there is free entry and exit of firms in the market." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2015

(ii) False
A monopoly restricts the entry of new firms due to high barriers like legal restrictions, economies of scale, or resource control, ensuring the monopoly remains the sole seller.

104. "Monopolistic competition involves a single seller dominating the market." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2012

(ii) False
Monopolistic competition features many sellers offering similar but not identical products, allowing for product differentiation.

105. "Oligopoly is a market structure where a few firms dominate the market, often with significant interdependence among them." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2000

(i) True
Oligopoly is characterized by a few large firms that control the market, and their decisions are interdependent, often leading to strategic behavior.

106. "A monopolistic competition market offers scope for product differentiation." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2011

(i) True
Monopolistic competition allows sellers to differentiate their products based on quality, branding, or features to attract customers.

107. "Perfect competition ensures price determination through demand and supply forces without any individual market control." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2009

(i) True
In perfect competition, no individual buyer or seller can influence the price, as it is determined by the overall market demand and supply.

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108. "Oligopoly markets often experience price rigidity due to mutual interdependence among firms." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2005

(i) True
Firms in an oligopoly avoid frequent price changes to prevent price wars, leading to price rigidity despite changes in demand or cost.

109. "Electricity distribution by a single company in a city is an example of monopolistic competition." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2006

(ii) False
Electricity distribution by a single company is an example of a monopoly, as there is only one seller without competition in the market.

110. Identify the type of markets represented by the visuals.



(a) Perfect Competition and Oligopoly
(b) Monopoly and Perfect Competition
(c) Perfect Competition and Monopoly
(d) Monopolistic Competition and Monopoly

Ans : MAIN 2006

(c) Perfect Competition and Monopoly
(i) First Visual : Represents Perfect Competition, where multiple sellers provide identical goods at the same price without differentiation.
(ii) Second Visual : Represents Monopoly, where one firm controls the entire market with no close substitutes.

111. Identify the type of markets represented by the visuals.



(a) Monopolistic Competition and Oligopoly
(b) Perfect Competition and Monopolistic Competition
(c) Oligopoly and Monopoly
(d) Monopoly and Perfect Competition

Ans : COMP 2007

(a) Monopolistic Competition and Oligopoly
(i) First Visual : Represents Monopolistic Competition, where many sellers offer similar but differentiated products (e.g., branding and marketing).
(ii) Second Visual : Represents Oligopoly, where a few large firms dominate the market and influence price and features.

112. Identify the type of markets represented by the visuals.



(a) Monopoly and Monopolistic Competition
(b) Monopoly and Perfect Competition
(c) Oligopoly and Monopolistic Competition
(d) Monopolistic Competition and Perfect Competition

Ans : SQP 2004

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(a) Monopoly and Monopolistic Competition
(i) First Visual : Represents Monopoly, where one supplier dominates the market (electricity supply in a city).
(ii) Second Visual : Represents Monopolistic Competition, where products are differentiated but competition exists.

TWO MARKS QUESTIONS

113. How can we define the term market in economics?

Ans : COMP 2024

In economics, the term "market" signifies a system where buyers and sellers come together to exchange goods, services, or resources. This interaction can occur in a physical setting, such as a marketplace, or through a virtual platform, like an online marketplace.

114. Define the term "Market."

Ans : SQP 2020

A market is an arrangement or system where buyers and sellers interact, either directly or indirectly, to exchange goods or services. This interaction facilitates the buying and selling process.

115. Explain the "homogeneous products" characteristic of a perfectly competitive market.

Ans : MAIN 2008

In a perfectly competitive market, all sellers offer products that are identical in terms of quality, design, and appearance. Buyers do not differentiate between products from different sellers. Consequently, sellers must sell their goods at the same price, as attempting to charge a higher price will drive buyers away, resulting in the seller's exclusion from the market.

116. Explain the implication of a large number of buyers in a perfectly competitive market.

Ans : COMP 2003

In a perfectly competitive market, the presence of a large number of buyers ensures that no single buyer can influence the market price. This creates a situation where prices are determined purely by market demand and supply, promoting fair and efficient pricing.

117. Explain the implication of "Perfect Knowledge about Market" under perfect competition.

Ans : SQP 2002

Perfect knowledge implies that both buyers and sellers have complete and accurate information about the goods and their prices. This ensures uniform pricing across the market and prevents any seller from charging a higher price. For producers, this knowledge ensures uniform cost structures, while buyers benefit from consistent pricing.

118. Why is a firm under perfect competition a "price-taker" and not a "price-maker"? Explain.

Ans : MAIN 2001

In a perfectly competitive market, there are numerous sellers, each with a negligible share in the total supply. This means no individual seller can influence the market price. Firms must accept the market-determined price for their goods, as deviating from it would result in losing buyers. This characteristic makes each seller a "price-taker" rather than a "price-maker."

119. Explain the meaning of a monopoly market.

Ans : SQP 2020

A monopoly market is one where a single seller supplies a product or service with no close substitutes, and there are significant barriers to entry for other firms. The monopolist has complete control over the price and supply of the product, making it a unique market structure.

120. Under perfect competition, the seller is a price taker; under monopoly, he is the price maker. Explain.

Ans : COMP 2010

In perfect competition, the price is determined by the industry due to the presence of a large number of buyers and sellers trading homogeneous products. No single seller can influence the price by changing their supply. However, in a monopoly, the seller is the only supplier of the product. Being the sole market participant, the monopolist has complete control over pricing and can set prices according to market demand, making the firm a price maker.

121. What is price discrimination?

Ans : SQP 2024

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Price discrimination refers to the monopolist's practice of charging different prices to different consumers for the same product. This is possible because the monopolist has significant control over the market, with no competition and no entry of other firms. Price discrimination allows the monopolist to maximize profits by selling at varying prices based on factors such as consumer income, demand elasticity, or the buyer's standard of living.

122. Give any two points of differentiation between perfect and monopolistic competition.

Ans : MAIN 2020

Basis	**Perfect Competition**	**Monopolistic Competition**
Number of Buyers and Sellers	A very large number of buyers and sellers are present.	A large number of buyers and sellers exist, but less than in perfect competition.
Mobility	Resources (factors of production) are perfectly mobile.	Resources have imperfect mobility.
Selling Costs	No selling costs are incurred since products are identical.	High selling costs are incurred for advertising and promotions.

123. Explain the "freedom of entry and exit to firms in the industry" feature of monopolistic competition.

Ans : COMP 2023

This feature highlights that there are minimal barriers to entry for new firms or exit for existing firms in monopolistic competition. If firms are earning profits above the normal level, new firms enter the market, increasing supply and reducing prices. Eventually, profits are reduced to the normal level. Conversely, if firms incur losses, they exit the market, reducing supply and raising prices until the remaining firms earn normal profits.

124. Briefly explain any two features of monopolistic competition market.

Ans : SQP 2022

(i) Product Differentiation : In monopolistic competition, products are similar but slightly differentiated based on quality, design, branding, or packaging. This differentiation allows firms to attract specific consumer groups.

(ii) Large Number of Sellers : The market consists of a large number of sellers, ensuring that no single firm has complete control over the market. This creates a competitive environment where each firm's decisions affect the overall market.

125. Explain the implications of "differentiated products" in monopolistic competition.

Ans : MAIN 2022

Differentiated products in monopolistic competition imply that firms offer similar products but with slight variations. These differences can be based on quality, packaging, branding, or features. This differentiation allows each firm to create a unique identity and attract a specific segment of buyers, reducing direct competition. However, it also increases advertising and promotional costs as firms strive to highlight their uniqueness.

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126. Define Oligopoly.

Ans : COMP 2021

Oligopoly is a market structure characterized by the presence of a few large sellers of a commodity and a significant number of buyers. Each seller controls a substantial share of the market.

127. Why are the firms said to be interdependent in an oligopoly market? Explain.

Ans : SQP 2020

In an oligopoly, there is a high degree of interdependence among firms. The pricing and output decisions of one firm significantly impact the decisions of rival firms, as the market consists of only a few large firms. For example, if one firm lowers its price, rival firms may also reduce their prices. Similarly, if one firm raises its price, competitors may adjust their pricing policies accordingly. This mutual dependence influences strategic decision-making.

128. What is meant by price rigidity under oligopoly?

Ans : MAIN 2019

Price rigidity in an oligopoly refers to the situation where prices remain stable despite changes in

costs or demand. Firms in an oligopoly avoid changing prices because of the fear of competitive retaliation. If a firm raises its price, competitors may not follow, resulting in a loss of customers. Conversely, if a firm lowers its price, rivals may also reduce their prices, leading to a price war without increasing market share.

129. Explain why there are only a few firms in an oligopoly market.

Ans : COMP 2017

Oligopoly markets typically have only a few firms because each firm controls a significant portion of the market. These firms are so large that their pricing and output decisions directly influence their competitors. This market concentration makes it difficult for new firms to enter and compete effectively. Moreover, oligopoly firms often form cartels or trusts to reduce competition and maximize profits by coordinating prices and output. This behavior further reinforces the dominance of a small number of firms.

130. Examine the image below showing multiple small shops in a marketplace selling identical vegetables at the same price. Based on the image, answer the following:

(i) Identify the type of market structure represented in the image.

(ii) State and explain any two features of this market structure.



Ans : SQP 2013

(i) The market structure depicted is Perfect Competition.

(ii) Features:

(a) Large Number of Sellers and Buyers : Many sellers offer identical products, and buyers can choose freely.

(b) Homogeneous Products : All sellers sell the same kind of goods, making products identical and easily substitutable.

131. Observe the image of a luxury car brand showroom, where only one brand dominates the market in the area. Answer the following:

(i) What type of market structure does this image depict?

(ii) List and explain any two characteristics of this market structure.



Ans : MAIN 2018

(i) The market structure depicted is Monopoly.

(ii) Features:

(a) Single Seller : The brand has no direct competitors within the market area shown.

(b) Price Maker : The company can set its own prices due to lack of competition.

132. The image below shows a street with multiple coffee shops, each advertising its unique flavors and ambiance. Analyze the image and answer the following:

(i) Which type of market structure is being represented here?

(ii) Explain two features of this market structure.



Ans : COMP 2014

(i) The market structure depicted is Monopolistic Competition.

(ii) Features:

(a) Product Differentiation : Each shop offers unique coffee blends or ambiance to attract customers.

(ii) Many Sellers : Several shops compete, but each has its own customer base.

133. Analyze the images below and identify the type of market depicted. Explain any one feature of the identified market structure.



Ans : SQP 2016

(i) Market Structure : Perfect Competition.
(ii) Feature : Homogeneous Products – All sellers offer identical goods, leaving buyers indifferent to whom they purchase from.

134. Analyze the images below and identify the type of market structure depicted. Explain any one feature of the same.



Ans : MAIN 2012

(i) Market Structure : Monopoly.
(ii) Feature : Single Seller – The market is controlled by one seller offering unique products with no close substitutes.

135. Perfect competition ensures both consumer welfare and al locative efficiency.' Justify the statement with two suitable reasons."

Ans : COMP 2000

(i) Consumer Welfare : Perfect competition leads to lower prices and higher output since firms operate at minimal costs, ensuring affordable goods and services for consumers.
(ii) Al locative Efficiency : Resources are allocated optimally as firms produce exactly what is demanded by consumers at equilibrium prices, minimizing wastage.

136. Monopolistic competition benefits consumers through product differentiation but may lead to inefficiencies in resource allocation.' Justify the statement with two reasons."

Ans : SQP 2015

(i) Consumer Benefits : Firms offer a variety of products with unique features, catering to diverse consumer preferences.
(ii) Inefficiency : Excessive focus on advertising and branding increases costs, leading to inefficient allocation of resources.

137. Monopoly markets can lead to higher prices and restricted output, impacting consumer welfare negatively.' Justify the statement with two reasons."

Ans : MAIN 2011

(i) Higher Prices : Lack of competition allows monopolists to set higher prices, reducing afford ability for consumers.
(ii) Restricted Output : Monopolists may limit production to maximize profits, leading to under utilization of resources and unmeet consumer demand.

138. Oligopoly markets often result in strategic decision-making among firms, which can either benefit or harm consumers.' Justify the statement with two suitable reasons."

Ans : COMP 2009

(i) Collaboration Harm : Firms may form cartels to set higher prices, reducing consumer welfare.

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(ii) Innovation Benefit : Competition among a few large firms often drives innovation, benefiting consumers with better-quality products.

139. "'Perfect competition is an ideal market structure, yet it is rarely observed in the real world.' Justify this statement with two reasons."

Ans : SQP 2005

(i) Unrealistic Assumptions : Perfect competition assumes an infinite number of buyers and sellers and homogeneous products, which rarely exist in real markets.
(ii) Barriers to Entry : Entry and exit of firms are often restricted by regulations, costs, or other factors, making perfect competition impractical.

140. "'In monopolistic competition, advertising plays a crucial role in attracting customers, leading to increased costs for firms.' Justify the statement with two reasons."

Ans : MAIN 2006

(i) Role of Advertising : Firms use advertising to highlight product differences and build brand loyalty, influencing consumer choices.
(ii) Increased Costs : High advertising expenses raise the overall cost of production, which may lead to higher prices for consumers.

141. "'Monopoly markets lack competition, which can lead to inefficient production and reduced innovation.' Justify the statement with two suitable reasons."

Ans : COMP 2007

(i) Inefficient Production : Without competition, monopolists may lack incentives to minimize costs or optimize production processes.
(ii) Reduced Innovation : The absence of rivals may reduce the need for innovation, leading to stagnation in product development.

142. "'Oligopolist firms often resort to non-price competition to maintain market share.' Justify the statement with two reasons."

Ans : SQP 2004

(i) Product Differentiation : Firms compete through branding, advertising, and product features instead of price reduction, retaining customer loyalty.
(ii) Avoiding Price Wars : Non-price competition helps firms maintain profitability while avoiding destructive price wars.

143. "Justify the following statement with any two valid arguments:
'In a monopoly market structure, the firm has complete control over determining the price of its product.'"

Ans : MAIN 2008

(i) Single Seller : In a monopoly, the firm is the sole supplier of the product, and there are no close substitutes. This gives the firm complete control over setting the price.
(ii) No Competition : Due to high barriers to entry, no other firms can enter the market to compete, allowing the monopolist to determine the price without external pressure.

144. "Justify the following statement with any two valid arguments:
'Product differentiation is a key characteristic of monopolistic competition that helps firms attract customers.'"

Ans : COMP 2003

(i) Consumer Preference : Firms differentiate their products through branding, quality, packaging, or advertising, which appeals to diverse consumer tastes and helps attract customers.
(ii) Competitive Edge : Differentiation reduces direct competition and allows firms to build customer loyalty, enabling them to charge slightly higher prices than their competitors.

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145. "Justify the following statement with any two valid arguments:
'In an oligopoly market, the actions of one firm significantly impact the decisions and strategies of other firms.'"

Ans : SQP 2002

(i) Interdependence : In an oligopoly, a few large firms dominate the market. Any decision by one firm, such as a change in price or output, compels others to respond strategically to maintain their market position.
(ii) Price Wars : Firms often avoid price competition to prevent price wars, focusing instead on non-price strategies like advertising or product innovation, influenced by the actions of competitors.

146. "Justify the following statement with any two valid arguments:
'In a perfect competition market, the price mechanism ensures al locative efficiency.'

Ans : MAIN 2001

(i) Resource Allocation : The price mechanism ensures that goods are produced and supplied at the level where demand equals supply, allocating resources to their most efficient use.

(ii) Consumer and Producer Surplus : Perfect competition maximizes both consumer and producer surplus, ensuring that society's welfare is optimized.

147. "Justify the following statement with any two valid arguments:
'Barriers to entry are essential for the existence of a monopoly market structure.'"

Ans : COMP 2010

(i) Preventing Competition : High barriers to entry, such as legal restrictions, economies of scale, or ownership of resources, prevent other firms from entering the market, ensuring the monopolist remains the sole producer.

(ii) Market Power : Barriers to entry protect the monopolist's ability to control price and output, as no potential competitors can challenge its dominance.

FIVE MARKS QUESTIONS

148. Explain any three features of a monopoly market.

Ans : SQP 2024

Features of Monopoly Market:

(i) Single Seller : In a monopoly, a single firm produces the product, and the entire industry is represented by this one firm. There is no distinction between the firm and the industry. As the sole supplier, the firm exercises significant control over supply and pricing. Buyers lack alternatives, meaning they must purchase the product from the monopolist or forego it entirely, giving the monopolist immense market control.

(ii) No Close Substitute : Products offered by a monopolist have no close substitutes. If alternatives exist, it negates the monopolistic nature of the market. To maintain complete market control, it is assumed that no similar products are available to compete with the monopolist's product.

(iii) Restrictions on the Entry of New Firms : Monopolies impose significant barriers to the entry of new firms. Such restrictions may include patents, exclusive rights, or control over resources. Monopolies persist only when new firms face challenges entering the market. If new firms join, the monopoly ends as supply increases.

(iv) Price Maker : As the sole seller, the monopolist determines the price of the product. Buyers must accept the price set by the monopolist, as no alternative suppliers exist. However, a large number of buyers ensures no single buyer can influence pricing, making it a seller's market.

(v) Profits in the Long Run : A monopolist can earn sustained abnormal profits over time due to the absence of competition. Being the only supplier ensures the monopolist retains its position, enjoying long-term profitability.

149. (i) Define the term oligopoly market.
(ii) Mention any three features of an oligopoly market.

Ans : MAIN 2023

(i) Definition of Oligopoly Market : An oligopoly market consists of a few sellers who dominate the market by selling either homogeneous or differentiated products. The firms in this market are interdependent.

(ii) Features of Oligopoly Market:

(a) Homogeneous or Differentiated Product : The firms in an oligopoly may produce identical or different products. For example, if firms produce homogeneous goods like steel, it is termed a pure oligopoly. On the other hand, when firms manufacture differentiated products like cars, it is called differentiated oligopoly.

(b) Mutual Interdependence : The firms in an oligopoly market significantly influence each other's pricing and output decisions. A small number of firms compete, and the pricing or output decisions of one firm impact others, often reducing their sales.

(c) Few Sellers : The market consists of only a limited number of sellers offering either homogeneous or differentiated goods. Each firm's production constitutes a large portion of the total supply, giving them significant control over market conditions.

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150. What is a perfect competition market? Explain any four features of perfect competition market.

Ans : COMP 2020

A perfect competition market is one in which a large number of buyers and sellers trade homogeneous products at a uniform price determined by the market.

Features of Perfect Competition:

1. Large Number of Buyers and Sellers : In a perfectly competitive market, there are numerous buyers and sellers. This large number ensures that no single buyer or seller can influence the price of the commodity, and the price is determined solely by market demand and supply.
2. Homogeneous Products : The products offered by all sellers in the market are identical in quality, size, packaging, and other terms. Buyers have no preference for one seller over another, ensuring uniformity in pricing and product availability throughout the market.
3. Firm is a Price Taker : Firms in a perfectly competitive market must sell their products at the price determined by the market. They have no control over the pricing, which is based on overall demand and supply conditions. The market or industry acts as the "price maker," while individual firms are "price takers."
4. Free Entry and Exit : In a perfect competition market, there are no restrictions on firms entering or leaving the market. New firms can join the market if they find it profitable, while existing firms can exit without any barriers if they incur losses.
5. Perfect Knowledge : Both buyers and sellers have complete knowledge of the market, including product quality and pricing. This ensures that firms cannot charge different prices for the same product and creates uniformity across the market.
6. Perfect Mobility of Factors of Production : Factors of production (like labor and capital) can freely move across the market, ensuring that resources are allocated efficiently and prices remain equalized.
7. No Selling Costs : There are no additional costs for advertising or promotion in perfect competition because products are homogeneous and buyers already have full knowledge of the goods available.
8. Straight Demand Curve : Under perfect competition, the demand curve for each firm is perfectly elastic, reflecting that the firm can sell any quantity of goods at the market price.

151. Explain the implications of the perfectly competitive market:

(i) Large number of sellers

(ii) Freedom of entry and exit to firms.

Ans : SQP 2019

(i) Large number of sellers : The presence of a large number of sellers ensures that the share of any single seller in the total market output is insignificant. This means that no individual seller can influence the market price by changing their level of output. Sellers have no choice but to accept the market price, which is determined at the industry level.

(ii) Freedom of entry and exit to firms: In perfect competition, firms can freely enter or leave the market without barriers. This freedom has significant implications for profits and pricing:

(a) When firms earn abnormal profits, new firms enter the market. This increases the industry's overall output, causing prices to decrease. Over time, profits reduce to a normal level.

(b) Conversely, if firms face losses, some leave the market, reducing supply. This causes prices to rise until the remaining firms earn normal profits. Ultimately, in perfect competition, all firms earn just normal profits in the long run due to this dynamic process.

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152. Explain any five features of a monopoly.

Ans : MAIN 2017

(i) Single Seller : In a monopoly, there is only one firm producing and supplying the product, with no distinction between the firm and the industry. As the sole supplier, the monopolist has significant control over both supply and pricing. Buyers have no alternative but to purchase from the monopolist or forgo the product altogether, granting the monopolist immense market power.

(ii) No Close Substitutes : The product offered by a monopolist has no close substitutes. This ensures that buyers cannot switch to an alternative product, reinforcing the monopolist's

CASE BASED QUESTION

167. "In a shopping mall, two stores are selling the same brand of shoes, but their prices are different. Explain why prices can vary even when the product is identical, considering the type of market structure."

Ans : MAIN 2024

This situation reflects a monopolistic competition market structure where firms sell similar products but differentiate them through location, service, or store experience.
The price difference arises due to factors such as customer service, store ambience, or convenience of location, which justify higher pricing by one store.

168. "Two airlines offer flights on the same route from Mumbai to Bangalore. One airline charges a higher price but provides luxury services, while the other charges less for basic amenities. Identify the type of market structure and justify the pricing difference."

Ans : COMP 2023

This scenario represents a monopolistic competition market structure where firms differentiate their services. The pricing difference is due to service quality, where one airline provides luxury amenities (e.g., spacious seats, meals) while the other offers basic services for cost-conscious travelers.

169. "Two car manufacturers dominate the automobile market in a country. While both sell similar cars, one offers heavy discounts during the festive season, while the other does not. Explain how the market structure affects this behavior."

Ans : SQP 2011

This reflects an oligopoly market structure where a few large firms dominate. Firms in an oligopoly often engage in competitive strategies like discounts to capture market share. However, such decisions are interdependent, and the other firm may choose not to follow this pricing strategy to maintain a premium brand image.

170. "A popular coffee shop chain charges different prices for coffee across its outlets in different cities. Explain why this price difference exists and identify the market structure under which the chain operates."

Ans : MAIN 2010

This situation aligns with a monopolistic competition market structure where firms differentiate products based on location, service quality, or target demographics. The price difference exists because the chain considers factors like local demand, income levels, and operational costs in different cities.

171. "In a rural area, a single internet service provider charges high prices for broadband services. However, in a metropolitan city with multiple service providers, the prices are much lower. Explain the reason for this difference and identify the relevant market structures."

Ans : COMP 2015

In the rural area, the market represents a monopoly where the single provider can set high prices due to a lack of competition. In the metropolitan city, the market reflects oligopoly or monopolistic competition, where multiple providers compete, leading to lower prices to attract customers.

172. By giving valid reasons, explain which of the following features will be included in the characteristics of perfect competition:
(i) Homogeneous products
(ii) Advertising expenses by firms

Ans : SQP 2019

(i) Homogeneous products : This is included in the characteristics of perfect competition.
Reason : In perfect competition, all firms produce identical products, making them perfect substitutes. Consumers do not differentiate between the products based on quality or branding.
(ii) Advertising expenses by firms : This is not included in the characteristics of perfect competition.
Reason : Since the products are identical, there is no need for advertising, as consumers already view the goods as interchangeable.

173. By giving valid reasons, explain which of the following will best represent a monopolistic market:
(i) A company selling differentiated soaps under various brand names.
(ii) A public utility company supplying electricity in a city.

Ans : MAIN 2021

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(iv) Group Behavior : Firms in an oligopoly market behave collectively, often prioritizing the interests of the group over individual gains. This group behavior can lead to the formation of cartels, where firms collaborate to control prices and output.

(v) Barriers to Entry of Firms : New firms face significant barriers, such as patents, high capital requirements, and control over critical raw materials. These restrictions limit competition and allow existing firms to maintain their dominance and earn abnormal profits in the long run.

156. Explain the implications of the following in an oligopoly market:
(i) Barriers to entry of new firms
(ii) Non-price competition

Ans : COMP 2014

(i) Barriers to Entry of New Firms : Barriers restrict the entry of new firms into oligopolist industries, limiting competition. These barriers may include high startup costs, patents, or control over essential raw materials. Only firms that overcome these barriers can enter the market. This ensures that existing firms enjoy long-term dominance and abnormal profits.

(ii) Non-Price Competition : Instead of competing on price, firms engage in non-price competition through strategies like better customer service, product quality, or promotional offers. This avoids price wars, which can harm all firms in the market. Non-price competition helps firms retain customers and increase sales without altering the price.

157. Distinguish between monopolistic competition and oligopoly.

Ans : SQP 2016

Basis	**Monopolistic Competition**	**Oligopoly**
Firms	Large number of sellers	Few dominant firms
Nature of Products	Differentiated products	Homogeneous or differentiated products
Control over Price	Limited control due to competition	Significant control within certain limits
Entry Barriers	No major barriers to entry	High entry barriers, such as capital or patents

158. "In the context of a perfectly competitive market, firms are unable to influence prices due to market dynamics. What are the key features of this market structure that justify this inability, and how should firms operate under such conditions?"

Ans : MAIN 2012

(i) Price Taker Role : Firms in perfect competition cannot set prices as prices are determined by the forces of demand and supply in the market.

(ii) Homogeneous Products : All firms sell identical products, leaving no scope for differentiation or price variation.

(iii) Free Entry and Exit : The absence of barriers ensures that firms enter or leave the market based on profitability, preventing any firm from dominating.

(iv) Large Number of Buyers and Sellers : The presence of many buyers and sellers ensures that no single firm can influence the market price.

(v) Operational Strategy : Firms should focus on minimizing production costs and maximizing efficiency to earn profits at the prevailing market price.

159. "In a monopolistic competition market, firms differentiate their products to attract consumers. What responsibilities do firms have to ensure ethical practices while differentiating their products, and how does this impact consumer trust?"

Ans : COMP 2000

(i) Truthful Advertising : Firms should avoid misleading advertisements and provide accurate information about their products.

(ii) Quality Assurance : Product differentiation should focus on genuine improvements in quality, not superficial changes to deceive consumers.

(iii) Fair Pricing : Prices should reflect the actual value added through differentiation and not exploit consumers.

(iv) Sustainability : Firms should adopt eco-friendly practices in product design and packaging to attract environmentally conscious consumers.

control over the market. If substitutes existed, monopoly power would diminish, as multiple firms would compete for market share.

(iii) Restrictions on the Entry of New Firms : Monopolies operate under conditions where entry of new firms is restricted. Barriers such as patent rights, exclusive control over raw materials, or legal restrictions prevent competition. Without these barriers, the monopoly situation would dissolve as new firms enter the industry.

(iv) Price Maker : The monopolist, being the sole supplier, has full control over the pricing of the product. Unlike in competitive markets, the monopolist sets the price based on demand and supply. Buyers have no influence on the price and must accept it as determined by the monopolist.

(v) Profits in the Long Run : A monopolist can earn abnormal profits over the long term due to the absence of competitors. With no fear of new entrants challenging the market position, the monopolist enjoys sustained profits.

153. Distinguish between perfect competition and monopoly form of market.

Ans : COMP 2013

Perfect Competition	**Monopoly**
In perfect competition, there are a large number of buyers and sellers actively competing in the market.	A monopoly consists of a single seller and a large number of buyers, with no distinction between the firm and the industry.
There are no restrictions on the entry or exit of firms into the industry under perfect competition.	In a monopoly, there are significant barriers preventing the entry and exit of firms.
The demand curve in perfect competition is perfectly elastic.	The demand curve in a monopoly slopes downward.
Firms in perfect competition can earn only normal profits in the long run.	A monopolist can earn supernormal profits even in the long run.
A firm under perfect competition is a price taker.	A monopoly firm acts as a price maker.

154. Differentiate between monopoly and monopolistic competition.

Ans : SQP 2020

Basis	**Monopoly**	**Monopolistic Competition**
Number of Sellers and Buyers	A single seller of a product and a large number of buyers.	A large number of buyers and sellers.
Nature of the Product	Sells a product with no close substitutes.	Sells differentiated products, which are close substitutes of each other.
Entry and Exit	Entry and exit of firms are restricted.	Free entry and exit of firms.
Selling Cost	Very low selling cost.	Very high selling cost due to competition.
Nature of Product	Product may or may not be homogeneous.	Always features product differentiation.

155. Explain any five features of oligopoly.

Ans : MAIN 2018

(i) Interdependence : In an oligopoly, firms are highly interdependent because the market has only a few players. Any changes in price, output, or product quality by one firm trigger reactions from rival firms. For instance, if Pepsi lowers its price, Coca-Cola may also reduce its price to maintain competitiveness, directly impacting demand for Pepsi.

(ii) Indeterminate Demand Curve : The demand curve in an oligopoly is uncertain and keeps shifting because firms are interdependent. The behavior of one firm influences the demand for another firm's product. Therefore, the exact reaction of demand to price changes cannot be precisely predicted.

(iii) Role of Selling Costs : Oligopolist firms invest heavily in advertising and sales promotions to increase product sales. Due to intense competition, firms rely on selling techniques like advertisements and promotional offers to maintain their market share.

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(v) Example : Clothing brands (e.g., Zara, H&M).

164. The following table represents the demand and supply schedule in a perfectly competitive market:

Price (Rs)	Market Demand (units)	Market Supply (units)
50	100	200
40	150	150
30	200	100

(i) At which price is the market in equilibrium, and why?
(ii) What happens to supply when the price decreases from Rs 50 to Rs 40?
(iii) Explain why firms in a perfectly competitive market cannot influence price.
(iv) How does the law of demand operate in this market?
(v) Suggest one advantage of perfect competition for consumers.

Ans : MAIN 2006

(i) At Rs 40, demand = supply = 150 units. The market is in equilibrium because there is no shortage or surplus.
(ii) Supply decreases from 200 units to 150 units, showing a direct relationship between price and supply.
(iii) Firms are price takers because the products are homogeneous, and individual firms are too small to impact the market price.
(iv) The law of demand is observed as price decreases, demand increases (e.g., at Rs 50, demand is 100 units, but at Rs 30, it increases to 200 units).
(v) Low prices due to competition and efficient resource allocation.

165. The table below shows the price and demand for a product in a monopoly market:
(i) Calculate the change in demand when the price decreases from Rs 80 to Rs 60.
(ii) Explain why a monopoly firm has full control over prices.
(iii) Discuss one disadvantage of a monopoly for consumers.
(iv) How does the demand schedule illustrate the law of demand?
(v) Suggest one reason why governments regulate monopolies.

Ans : COMP2007

(i) Change in demand = 60 - 40 = 20 units
(ii) A monopoly firm is the sole producer with no substitutes or competition, allowing it to set prices freely.
(iii) Monopolies often charge high prices, reducing afford ability for consumers.
(iv) The schedule shows an inverse relationship between price and demand (e.g., as price decreases from Rs 80 to Rs 40, demand increases from 40 to 90).
(v) To prevent exploitation of consumers and ensure fair pricing.

166. The table represents the price and market demand in an oligopoly market:

Price (Rs)	Market Demand (units)
50	300
40	400
30	550

(i) What is the relationship between price and market demand?
(ii) How does the interdependence of firms influence pricing in an oligopoly market?
(iii) Explain the significance of non-price competition in an oligopoly.
(iv) Identify one example of a product sold in an oligopoly market.
(v) Suggest one reason why oligopoly firms may engage in price wars.

Ans : MAIN 2024

(i) There is an inverse relationship; as price decreases, market demand increases.
(ii) Firms in an oligopoly consider competitors' reactions before changing prices, often avoiding drastic price changes to maintain market stability.
(iii) Non-price competition, like advertising and product differentiation, helps firms attract customers without engaging in price wars.
(iv) Example : Smart phones (e.g., Apple, Samsung).
(v) To capture greater market share by undercutting competitors.

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CHAPTER 4

MONEY

SUMMARY

1. CHALLENGES AND INCONVENIENCE OF THE BARTER SYSTEM

The barter system was the earliest form of trade, involving the direct exchange of goods and services. While it served its purpose in simple economies, it was fraught with several limitations that made trade inefficient and cumbersome:

1.1 Double Coincidence of Wants

Trade under the barter system required both parties to have goods or services that the other needed simultaneously. For instance, a farmer wanting shoes would need to find a cobbler who also wanted the farmer's produce. This dependence made transactions rare and time-consuming.

1.2 Lack of a Common Measure of Value

There was no standardized unit to compare the value of goods or services. For example, determining how many apples were equivalent to a pair of shoes was subjective and often led to disagreements.

1.3 Indivisibility of Goods

Certain goods, like a cow or a plow, could not be divided into smaller parts to match the value of other goods being exchanged. This restricted their usability in trade.

1.4 Difficulty in Storing Wealth

Many goods used in the barter system, such as grains or livestock, were either perishable or required significant effort to maintain, making them unsuitable for saving wealth over time.

These inefficiencies highlighted the need for a standardized and universally accepted medium of exchange, paving the way for the evolution of money.

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2. EVOLUTION OF MONEY

To overcome the limitations of barter, societies gradually transitioned to more efficient systems of exchange. Initially, commodity money like precious metals (gold, silver) or items of intrinsic value (shells, beads, salt) were used. These commodities addressed some of the barter system's challenges as they were durable, portable, and widely accepted.

Over time, economies shifted to paper currency backed by precious metals, and eventually to fiat money, which has no intrinsic value but is accepted as legal tender by government decree. In the modern era, digital forms of money, such as cryptocrystalline and electronic payments, have further revolutionized trade, offering unparalleled convenience and efficiency.

3. LEGAL DEFINITION OF MONEY

Money is defined as any item or medium that is legally recognized and accepted for the exchange of goods and services, and for the settlement of debts. This legal status ensures that money functions as a reliable tool for economic transactions. In modern economies, money includes coins, paper currency, and digital forms like bank deposits, which are universally acknowledged as legal tender.

4. FUNCTIONS OF MONEY

Money performs several essential functions that are critical to the functioning of an economy:

4.1 Medium of Exchange

Money eliminates the inefficiencies of barter by serving as a universally accepted intermediary in transactions. It facilitates the buying and selling of goods and services without the need for a direct exchange. For example, a farmer can sell crops for money and later use that money to purchase shoes, bypassing the need for double coincidence of wants.

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(i) A company selling differentiated soaps under various brand names : This represents a monopolistic market.
Reason : Monopolistic competition is characterized by product differentiation, where firms compete by offering slightly different versions of a product.
(ii) A public utility company supplying electricity in a city : This does not represent a monopolistic market.
Reason : This is an example of a monopoly, where a single seller dominates the market without close substitutes.

174. By giving valid reasons, explain which of the following will be included as features of a monopoly:
(i) Barriers to entry for other firms.
(ii) Many sellers producing similar goods.

Ans : COMP 2011

(i) Barriers to entry for other firms : This is included as a feature of monopoly.
Reason : Monopolies often exist because high entry barriers prevent other firms from entering the market and competing.
(ii) Many sellers producing similar goods : This is not included as a feature of monopoly.
Reason : A monopoly involves a single seller dominating the market with no close substitutes.

175. By giving valid reasons, explain which of the following markets is characterized by free entry and exit of firms:
(i) Perfect competition.
(ii) Monopolistic competition.

Ans : SQP 2014

(i) Perfect competition : This is characterized by free entry and exit of firms.
Reason : In perfect competition, there are no significant barriers, allowing firms to freely enter or leave the market based on profitability.
(ii) Monopolistic competition : This is also characterized by free entry and exit of firms.
Reason : Similar to perfect competition, firms can enter and exit the market freely, although they differentiate their products to compete.

176. By giving valid reasons, explain which of the following are common features of monopolistic competition:
(i) Product differentiation.
(ii) A single seller dominating the market.

Ans : MAIN 2016

(i) Product differentiation : This is a common feature of monopolistic competition.
Reason : Firms in monopolistic competition distinguish their products through branding, quality, or other features to attract consumers.
(ii) A single seller dominating the market : This is not a feature of monopolistic competition.
Reason : Monopolistic competition involves many sellers, each with a small share of the market, unlike a monopoly.

177. By giving valid reasons, explain which of the following will be included in the characteristics of oligopoly:
(i) Few dominant sellers.
(ii) Firms producing completely identical products.

Ans : SQP 2005

(i) Few dominant sellers : This is included as a characteristic of oligopoly.
Reason : Oligopoly is defined by a few large firms that dominate the market, often controlling a significant portion of the supply.
(ii) Firms producing completely identical products : This is not always a characteristic of oligopoly.
Reason : Oligopoly can have identical products (e.g., steel) or differentiated products (e.g., automobiles).

178. By giving valid reasons, explain which of the following markets ensures al locative efficiency:
(i) Perfect competition.
(ii) Monopoly.

Ans : COMP 2010

(i) Perfect competition : This ensures al locative efficiency.
Reason : In perfect competition, resources are allocated optimally, as goods are produced at the lowest possible cost, and prices reflect consumer demand.
(ii) Monopoly : This does not ensure al locative efficiency.
Reason : Monopolies often restrict output and charge higher prices, leading to inefficient allocation of resources.

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(v) Consumer Trust : Ethical differentiation builds long-term consumer trust and loyalty, enhancing the firm's reputation and market share.

160. "In an oligopoly market, the actions of one firm significantly impact the others. How should firms balance competition and collaboration to maintain fair pricing and innovation in such a market structure?"

Ans : SQP 2015

(i) Avoid Collusion : Firms should refrain from forming cartels to fix prices or limit output, as this is unfair to consumers and against the law.
(ii) Focus on Innovation : Instead of relying on price competition, firms should invest in product development and technology to differentiate their offerings.
(iii) Fair Pricing : Firms should set competitive prices that reflect production costs and market demand, ensuring afford ability for consumers.
(iv) Respond Strategically : Firms must consider competitors' actions but avoid unethical practices like predatory pricing.
(v) Long-Term Growth : Balancing competition and collaboration promotes a healthy market environment, benefiting both firms and consumers.

161. "In a monopoly market, a single firm dominates the entire industry. What duties and responsibilities should monopolists fulfill to prevent exploitation of consumers and promote fairness in the market?"

Ans : MAIN 2011

(i) Fair Pricing : Monopolists should avoid charging excessively high prices that exploit consumers.
(ii) Quality Standards : As the sole supplier, the firm must ensure that the products or services provided meet high quality and safety standards.
(iii) Transparency : The firm should clearly communicate product details, pricing, and terms of service to consumers.
(iv) Corporate Responsibility : Monopolists should contribute to societal welfare by supporting community initiatives and maintaining ethical practices.
(v) Avoiding Barriers : Monopolists should avoid creating artificial barriers to entry, allowing for potential competition in the future.

162. Given the diverse market structures in the economy, from perfect competition to oligopoly, how should governments regulate these markets to ensure both consumer welfare and fair competition among firms?"

Ans : COMP 2009

(i) Antitrust Laws : Governments should enforce antitrust regulations to prevent monopolies and ensure fair competition.
(ii) Price Monitoring : In monopolies and oligopolies, regulators should monitor prices to prevent overcharging and exploitation.
(iii) Consumer Protection : Governments should establish policies to protect consumers from unfair trade practices and ensure access to quality products.
(iv) Encouraging Entry : Policies should reduce barriers to entry in markets, allowing smaller firms to compete and promote innovation.
(v) Promoting Transparency : Governments should require firms to disclose product information and pricing, enabling consumers to make informed decisions.

163. The following table shows the demand schedule of two consumers in a monopolistic competition market:

Price (Rs)	Consumer 1 Demand (units)	Consumer 2 Demand (units)	Consumer 3 Demand (units)	Market Demand (units)
20	2	3	(i)	10
15	(ii)	4	6	15
10	6	5	8	(iii)

(i) What is the demand of Consumer 2 when the price is Rs 20 (i)?
(ii) Calculate the market demand when the price is Rs 15 (ii).
(iii) What is the total market demand when the price is Rs 10 (iii)?
(iv) Explain the significance of product differentiation in this type of market.
(v) Identify one example of a product sold in a monopolistic competition market.

Ans : SQP 2005

(i) Demand of customer 2 = 10 - 3 = 7 units
(ii) Market demand = 4 + 5 = 9 units
(iii) Market demand = 6 + 8 = 14
(iv) Product differentiation helps firms create unique identities for their products, attracting customers and allowing for non-price competition.

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183. Read the extract and answer the following questions:

An ice cream brand differentiates its products through creative flavors and packaging. Despite facing competition from many other brands, it has built a loyal customer base.

(i) Identify the type of market structure described in the extract.

(ii) Explain any four features of this market structure.

Ans : SQP 2019

(i) Type of Market Structure : Monopolistic Competition.

(ii) Features :

(a) Product Differentiation : The brand differentiates its ice cream through unique flavors and packaging.

(b) Large Number of Sellers : Multiple brands compete in the market.

(c) Elastic Demand : Customers can switch to other brands if prices rise significantly.

(d) Freedom of Entry and Exit : New ice cream brands can enter the market, and existing ones can leave easily.

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179. Read the extract and answer the following questions:
A local bakery is known for producing fresh bread and pastries. There are many bakeries in the city offering similar products, but this bakery attracts customers by offering unique flavors and personalized services.
(i) Identify the type of market structure described in the extract.
(ii) Explain any four features of the identified market structure.

Ans : MAIN 2015

(i) Type of Market Structure : Monopolistic Competition.
(ii) Features:
(a) Product Differentiation : Each bakery offers unique flavors and services to attract customers.
(b) Large Number of Sellers : Many bakeries are present in the city, ensuring competition.
(c) Freedom of Entry and Exit : New bakeries can open, and existing ones can exit the market freely.
(d) Price Elasticity of Demand : Customers can switch between bakeries if prices are raised too high, making demand elastic.

180. Read the extract and answer the following questions:
A utility company in a city is the only provider of electricity and sets its prices without any competition. Customers rely solely on this company for their electricity needs.
(i) Name the type of market structure described in the extract.
(ii) Explain any four characteristics of this market structure.

Ans : SQP 2017

(i) Type of Market Structure : Monopoly.
(ii) Characteristics:
(a) Single Seller : The utility company is the only supplier of electricity in the city.
(b) No Close Substitutes : Consumers have no alternative source for electricity.
(c) Barriers to Entry : High costs and government regulation prevent other companies from entering the market.
(d) Price Maker : The monopoly sets the price as there is no competition.

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181. Read the extract and answer the following questions:
Two car manufacturers dominate the automobile market in the country. While one focuses on fuel efficiency, the other emphasizes advanced safety features. Both closely monitor each other's actions to decide their marketing strategies.
(i) Identify the market structure described in the extract.
(ii) Explain any four characteristics of the identified market structure.

Ans : MAIN 2019

(i) Type of Market Structure : Oligopoly.
(ii) Characteristics:
(a) Few Dominant Firms : Only two major car manufacturers dominate the market.
(b) Interdependence : Each firm's decisions, like pricing and product features, influence the other.
(c) Barriers to Entry : High costs and brand loyalty make it difficult for new firms to enter.
(d) Non-Price Competition : Firms compete through features like fuel efficiency and safety rather than price.

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182. Read the extract and answer the following questions:
A vegetable vendor in a local market sells the same type of vegetables at the same price as many other vendors. Customers freely switch between vendors without any concern for quality differences.
(i) Name the type of market structure represented in the extract.
(ii) Explain any four features of the identified market structure.

Ans : COMP 2013

(i) Type of Market Structure : Perfect Competition.
(ii) Features :
(a) Homogeneous Products : All vendors sell identical vegetables.
(b) Large Number of Buyers and Sellers : The market consists of many buyers and sellers, ensuring competition.
(c) Free Entry and Exit : Vendors can join or leave the market easily.
(d) Price Taker : Vendors must accept the market-determined price without influencing it.

4.2 Measure of Value

Money provides a common standard for valuing goods and services, making trade simpler and more efficient. Prices are expressed in monetary terms, enabling consumers to compare the worth of different items. For instance, stating that a loaf of bread costs Rs 50 and a pair of shoes costs Rs 500 allows for easy comparison.

4.3 Standard of Deferred Payment

Money facilitates future payments, which is critical for credit transactions, loans, and long-term contracts. It allows buyers and sellers to agree on a price and make payments over time, fostering economic activities like investment and borrowing.

4.4 Store of Value

Money enables individuals and institutions to save wealth for future use. Unlike perishable goods, money is durable and does not lose value over time, provided inflation is controlled. This function makes money an ideal tool for accumulating and preserving purchasing power.

5. SIGNIFICANCE OF MONEY IN MODERN ECONOMIES

Money is not just a medium of exchange; it is the backbone of modern economic systems. It streamlines trade, facilitates economic growth, and ensures efficient resource allocation. The functions of money allow for specialization, large-scale production, and international trade, all of which are essential for economic development. Furthermore, money promotes financial stability by enabling the smooth functioning of credit systems and monetary policies.

MULTIPLE CHOICE QUESTION

1. Which is an essential feature of barter system?
(a) It is based on transfer value
(b) It is based on double coincidence of wants
(c) It is based on unit of account
(d) It is based on store of value

Ans : MAIN 2024

(b) It is based on double coincidence of wants
The "double coincidence of wants" in the barter system implies that both parties must simultaneously desire what the other is offering to facilitate an exchange. For example, if one individual has apples and wants rice, and another has rice and wants apples, they can trade. However, finding such matching needs is challenging, making the barter system inefficient.

2. The evolution of money started with ..... stage.
(a) Metallic money
(b) Credit money
(c) Plastic money
(d) Animal money

Ans : COMP 2023

(c) Plastic money
After the barter system, commodity money emerged as the medium of exchange, facilitating transactions.

3. The system of direct exchange between different commodities and services is known as:
(a) Barter system
(b) Monetary system
(c) Banking system
(d) Market system

Ans : SQP 2022

(a) Barter system
The barter system refers to the old method of exchanging goods or services directly without using money as a medium.

4. The price of cloth can be expressed in terms of money just as it can be expressed in terms of rice. Which function of money is expressed in this statement?
(a) Medium of exchange
(b) Measure of value
(c) Store of value
(d) None of these

Ans : MAIN 2021

(b) Measure of value
The "Measure of Value" function of money allows goods and services to be compared and valued in monetary terms, serving as a standard unit of value.

5. Credit transactions requiring future payments cannot take place smoothly under:
(a) Lack of Standard of deferred payment
(b) Deferred payments
(c) Bank trading
(d) Money market

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Money eliminates the inconvenience of the barter system by acting as a universally accepted medium of exchange, removing the need for a double coincidence of wants.

19. Study the relationship in the first pair of terms and complete the second pair.
(i) Store of Value : Saves wealth over time.
(ii) Standard of Deferred Payment : _____.
(a) Immediate trade of goods
(b) Acts as a unit for future payments
(c) Lacks future utility
(d) Encourages barter

Ans : MAIN 2006

(b) Acts as a unit for future payments
Money serves as a standard of deferred payment, enabling future transactions by acting as a universally accepted unit for settling debts and obligations.

20. Study the relationship in the first pair of terms and complete the second pair.
(i) Barter System : Exchange of goods directly.
(ii) Money System : _____.
(a) Requires specific goods
(b) Facilitates indirect exchange
(c) Depends on coincidence of wants
(d) Encourages specialization

Ans : COMP 2007

(b) Facilitates indirect exchange
The money system facilitates indirect exchange, allowing goods and services to be traded using money, overcoming the limitations of direct exchanges in the barter system.

21. Study the relationship in the first pair of terms and complete the second pair.
(i) Measure of Value : Helps in pricing goods.
(ii) Store of Value : _____.
(a) Measures wealth instantly
(b) Retains purchasing power over time
(c) Lacks durability for saving
(d) Provides immediate exchange

Ans : SQP 2004

(b) Retains purchasing power over time
As a store of value, money allows individuals to save their purchasing power over time, providing flexibility in spending and planning.

22. Study the relationship in the first pair of terms and complete the second pair.
(i) Evolution of Money : Transitioned from barter to coins.
(ii) Modern Money : _____.
(a) Limited to coins only
(b) Includes digital and fiat forms
(c) Excludes paper currency
(d) Barter system is predominant

Ans : MAIN 2008

(b) Includes digital and fiat forms
Modern money encompasses various forms, including fiat currency, coins, and digital payment systems, reflecting advancements from the traditional barter system to modern economies.

23. "Barter trade requires a double coincidence of wants."
Which of the following best explains this inconvenience of the barter system?
(a) It eliminates the need for money.
(b) It restricts trade to mutual needs.
(c) It promotes specialization.
(d) It simplifies economic transactions.

Ans : SQP 2003

(b) It restricts trade to mutual needs.
The barter system requires both parties to have mutual wants, which restricts trade. This limitation led to the evolution of money, which eliminates the need for a double coincidence of wants.

24. "Money acts as a unit of account to measure the value of goods and services."
Which function of money does this describe?
(a) Medium of exchange.
(b) Measure of value.
(c) Store of value.
(d) Standard of deferred payment.

Ans : MAIN 2002

(b) Measure of value.
Money provides a standard measure to express the monetary value of goods and services, making it easier to compare and determine prices in the market.

25. "A farmer borrows ₹10,000 today and repays it after one year."
Which function of money is illustrated in this example?
(a) Medium of exchange.
(b) Store of value.
(c) Measure of value.
(d) Standard of deferred payment.

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Reason (R) : The double coincidence of wants means that two parties must have exactly what the other wants at the same time.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2000

(a) Both A and R are true, and R is the correct explanation of A.
The barter system required matching needs, which made transactions cumbersome. The reason correctly explains the assertion about the inconvenience of the barter system.

14. **Assertion (A) :** Money acts as a medium of exchange, eliminating the need for a double coincidence of wants.
Reason (R) : Money is widely accepted as a means of payment for goods and services.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2015

(a) Both A and R are true, and R is the correct explanation of A.
Money replaces the barter system by being universally accepted for transactions, eliminating the need for a double coincidence of wants.

15. **Assertion (A) :** Money serves as a measure of value, allowing goods and services to be expressed in monetary terms.
Reason (R) : A common measure of value simplifies transactions and enables the comparison of prices for different goods and services.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2011

(a) Both A and R are true, and R is the correct explanation of A.
Money acts as a unit of account, simplifying price comparison and valuation across goods and services, which explains the assertion.

16. **Assertion (A) :** Money functions as a standard of deferred payment, facilitating credit transactions.
Reason (R) : Money is durable and retains its value over time, enabling future payments to be made in monetary terms.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2009

(a) Both A and R are true, and R is the correct explanation of A.
Money's durability and value retention allow it to serve as a standard for future payments, explaining its role in credit transactions.

17. **Assertion (A) :** Money acts as a store of value, enabling individuals to save for future needs.
Reason (R) : Money can be easily stored and retrieved without significant loss of value over time.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2005

(a) Both A and R are true, and R is the correct explanation of A.
Money's stability and durability make it a reliable store of value, allowing individuals to save and access it in the future without value loss.

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18. Study the relationship in the first pair of terms and complete the second pair.
(i) Barter System : Double coincidence of wants.
(ii) Money : _____.

(a) Lack of divisibility
(b) Medium of exchange
(c) Direct trade of goods
(d) Fixed value

Ans : SQP 2006

(b) Medium of exchange

Ans : COMP 2020

(a) Lack of Standard of deferred payment
The "Standard of Deferred Payment" ensures that debts and future payments are settled effectively. Without this, credit transactions would be disrupted.

6. The evolution of money started with this stage:
(a) Commodity money
(b) Metallic money
(c) Bank money
(d) Animal money

Ans : SQP 2019

(a) Commodity money
The evolution of money began with "Commodity Money," where items like grain, salt, and precious metals were used for trade before transitioning to metallic and later modern forms of money.

7. The system of direct exchange between different commodities and services is known as:
(a) Barter system
(b) Monetary system
(c) Banking system
(d) Market system

Ans : MAIN 2017

(a) Barter system
The barter system is an ancient method where goods or services are exchanged directly without the use of money.

8. Credit transactions requiring future payments cannot take place smoothly under:
(a) Lack of Standard of deferred payment
(b) Deferred payments
(c) Bank trading
(d) Money market

Ans : COMP 2013

(a) Lack of Standard of deferred payment
The "Standard of Deferred Payment" function ensures smooth transactions involving future payments. Without this standard, settling debts would not be feasible.

9. The price of cloth can be expressed in terms of money just as it can be expressed in terms of rice. Which function of money is expressed in this statement?
(a) Medium of exchange
(b) Measure of value
(c) Store of value
(d) Transfer of value

Ans : SQP 2018

(b) Measure of value
Money serves as a "Measure of Value," enabling the comparison and quantification of goods and services in monetary terms, acting as a standard unit for pricing.

10. Which of the following is considered as legal tender money?
(a) Currency notes and coins
(b) Drafts & cheques
(c) Bonds
(d) Debit cards

Ans : MAIN 2014

(a) Currency notes and coins
Currency notes and coins are considered legal tender because they are officially recognized by law for settling debts and payments in a country.

11. Barter system is also called as a .....
(a) D-D economy
(b) D-C economy
(c) C-C economy
(d) C-D economy

Ans : COMP 2016

(c) C-C economy
The barter system is also referred to as a Commodity-to-Commodity Economy (C-C economy). This is because goods are directly exchanged for other goods, without the use of money.

12. The evolution of money started with this stage .....
(a) Commodity money
(b) Metallic money
(c) Bank money
(d) Animal money

Ans : SQP 2012

(a) Commodity money
The first stage in the evolution of money was Commodity Money, where goods like grains, cattle, and precious metals were used as a medium of exchange. This was later followed by:
(i) Metallic Money
(ii) Paper Money
(iii) Credit Money
(iv) Plastic Money.

13. **Assertion (A) :** The barter system was inconvenient because it required a double coincidence of wants.

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Ans : COMP 2001

(d) Standard of deferred payment.
Money acts as a standard of deferred payment when it facilitates transactions involving future payments, such as borrowing and repaying loans.

26. "Money helps preserve wealth for future use without losing its value."
Which function of money does this represent?
(a) Store of value.
(b) Medium of exchange.
(c) Measure of value.
(d) Standard of deferred payment.

Ans : SQP 2010

(a) Store of value.
Money serves as a store of value by preserving purchasing power over time, allowing individuals to save wealth for future use.

27. "Modern economies use money as a widely accepted medium for purchasing goods and services."
What does this function of money represent?
(a) Measure of value.
(b) Standard of deferred payment.
(c) Store of value.
(d) Medium of exchange.

Ans : MAIN 2024

(d) Medium of exchange.
Money acts as a medium of exchange by eliminating the limitations of barter, enabling smooth transactions for purchasing goods and services.

28. Mr. Raj explained the 'system where goods and services were exchanged directly without the use of money, often leading to difficulties in finding a mutually agreeable exchange.' What is this system called?
(a) Monetary system
(b) Barter system
(c) Trade system
(d) Exchange system

Ans : COMP 2023

(b) Barter system
The barter system involves direct exchange of goods and services without money, creating inefficiencies like the lack of a common measure of value and difficulty in finding matching needs.

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29. Ms. Priya described the inconvenience of the barter system as 'the lack of a common medium to facilitate trade and the difficulty in dividing goods for smaller exchanges.' Which of the following best defines this issue?
(a) Lack of a store of value
(b) Double coincidence of wants
(c) Lack of standard payment
(d) Lack of economic scale

Ans : SQP 2022

(b) Double coincidence of wants
In the barter system, trade depends on both parties wanting what the other has, known as double coincidence of wants, which makes transactions difficult and inefficient.

30. Mr. Sharma explained the 'function of money that allows it to be used for buying goods and services and accepted as a common medium by everyone.' What is this function called?
(a) Store of value
(b) Standard of deferred payment
(c) Measure of value
(d) Medium of exchange

Ans : MAIN 2021

(d) Medium of exchange
Money's role as a medium of exchange facilitates trade by eliminating the need for direct barter, enabling smoother and more efficient transactions.

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31. Ms. Rina explained the function of money that 'allows people to save their earnings today to be used for future transactions.' What is this function of money called?
(a) Measure of value
(b) Store of value
(c) Medium of exchange
(d) Standard of deferred payment

Ans : COMP 2020

(b) Store of value
The store of value function of money allows individuals to preserve wealth over time, as money retains its purchasing power for future use.

32. Mr. Suresh mentioned that 'money enables payment for goods and services to be delayed and settled at a future date.' Which function of money does this describe?
(a) Store of value
(b) Medium of exchange
(c) Standard of deferred payment
(d) Measure of value

Ans : MAIN 2017

Double coincidence of wants implies that two individuals must simultaneously want what the other is offering to make an exchange. Money overcomes this by serving as a universally accepted medium of exchange, eliminating the need for a direct trade of goods and enabling smooth economic transactions.

64. How does money help in maximizing utility?

Ans : SQP 2016

Money helps consumers make rational decisions by assigning prices to goods and services, enabling them to evaluate options and maximize satisfaction. By allowing efficient allocation of resources, it ensures that individuals derive the greatest benefit from their purchases.

65. State any two demerits of the barter system of exchange.

Ans : COMP 2015

(i) Difficulty in storing wealth : It is challenging to store goods for future use as they may deteriorate over time, such as wheat, rice, or cattle, or incur high storage costs. Additionally, transferring immovable items like land or houses between locations is almost impossible and incurs significant expenses.

(ii) Lack of double coincidence of wants : The barter system works only when two individuals simultaneously need each other's goods. This limitation, known as the double coincidence of wants, severely restricts exchanges, as finding such a match is rare and challenging.

(iii) Lack of a standard for deferred payments : Barter trade makes it difficult to borrow or lend as no standard measure exists for future payments, leading to disputes and inefficiency in contracts.

(iv) Indivisibility of goods : Certain items, like cattle or pairs of shoes, cannot be divided without losing value. This indivisibility limits the practicality of barter, as splitting goods often renders them useless.

66. How does money solve the problem of lack of a common measure of value that existed under the barter system?

Ans : MAIN 2013

The barter system lacked a standard unit to measure and compare the value of goods. Money addresses this issue by serving as a universal yardstick, enabling all goods and services to be valued in terms of a standard monetary unit, making comparisons straightforward and precise.

67. How does money act as a standard of deferred payment?

Ans : SQP 2013

Money facilitates borrowing and lending by acting as a standard for future payments. Its acceptance ensures that agreements involving future transactions are consistent, reliable, and dispute-free.

68. How does the use of money solve the problem of 'lack of double coincidence of wants' that existed under the barter system?

Ans : COMP 2012

Money removes the need for double coincidence of wants by acting as a medium of exchange. Instead of directly exchanging goods, individuals can use money to purchase what they need, allowing more flexible and efficient trade.

69. How does money act as a store of value?

Ans : MAIN 2012

Money enables wealth to be stored conveniently over time without losing value. Unlike goods that deteriorate, money can be securely saved for future use, serving as a bridge between present and future needs.

70. Examine the below images. State and explain the inconvenience of the barter system and how money solves the problem.



Ans : SQP 2019

(i) Inconvenience of the Barter System : The barter system required a double coincidence of wants, which made trading inefficient and time-consuming. For example, the farmer needed milk but could not find a milk seller needing wheat.

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(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2000

(a) Statement 1 is true and Statement 2 is false.
Money simplifies valuation by providing a standard measure. In its absence, comparing goods directly would lead to inefficiencies and confusion.

40. **Statement 1 :** Money functions as a standard of deferred payment, enabling transactions over time.
Statement 2 : The barter system allowed deferred payments with the same efficiency as money.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2015

(a) Statement 1 is true and Statement 2 is false.
Money facilitates deferred payments by serving as a reliable standard. The barter system lacked uniformity and acceptance, making deferred payments impractical.

41. **Statement 1 :** Store of value is a key function of money, enabling individuals to save for future use.
Statement 2 : Barter transactions also served as an efficient store of value for individuals.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2011

(a) Statement 1 is true and Statement 2 is false.
Money retains its value over time, making it suitable for saving. Barter goods, however, were often perishable or degraded in value, making them inefficient for storage.

42. **Statement 1 :** Money as a medium of exchange facilitates trade by replacing direct exchange of goods.
Statement 2 : The evolution of money includes forms such as commodity money, metallic money, and fiat money.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2009

(c) Both Statements 1 and 2 are true.
Money simplifies trade by acting as an intermediary. Over time, its evolution has included different forms like commodities, metals, and paper currency.

43. **Statement 1 :** Fiat money is issued by the government and derives its value from legal backing, not intrinsic worth.
Statement 2 : Gold coins are an example of fiat money.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2005

(a) Statement 1 is true and Statement 2 is false.
Fiat money, like currency notes, has no intrinsic value but is backed by legal authority. Gold coins, having intrinsic value, are not fiat money.

44. **Statement 1 :** Money helps express the value of goods and services in a common denominator.
Statement 2 : Without money, exchange is still possible through direct negotiation in the barter system.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2024

(c) Both Statements 1 and 2 are true.
Money acts as a common measure of value, simplifying trade. While barter is possible without money, it is inefficient and relies on mutual wants.

45. **Statement 1 :** Legal money must be accepted as a medium of exchange in transactions.
Statement 2 : Cheques and credit cards are examples of legal money.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2006

(a) Statement 1 is true and Statement 2 is false.
Legal money, such as currency, is mandated for acceptance in transactions. Cheques and credit cards are not legal money; they are instruments for facilitating payments.

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Ans : SQP 2019

(c) Standard of deferred payment
The standard of deferred payment function allows money to act as a medium for settling debts in the future, fostering credit and financial agreements.

33. Mr. Anil discussed the evolution of money, highlighting how 'commodities like salt, grains, or metals were initially used as money before the development of coins and paper currency.' What is this early form of money called?
(a) Fiat money
(b) Commodity money
(c) Digital money
(d) Barter money

Ans : MAIN 2017

(b) Commodity money
Commodity money refers to items like salt, grains, or metals that were used as mediums of exchange because they held intrinsic value before modern currency systems evolved.

34. Ms. Rekha explained that 'money provides a standard unit for expressing the value of goods and services, making comparison easier.' Which function of money does this describe?
(a) Store of value
(b) Measure of value
(c) Medium of exchange
(d) Standard of deferred payment

Ans : COMP 2013

(b) Measure of value
The measure of value function allows money to act as a common benchmark for pricing goods and services, simplifying trade and economic comparisons.

35. Mr. Ramesh described the 'form of money that is issued by the government and accepted as legal tender but has no intrinsic value.' What type of money is this?
(a) Commodity money
(b) Representative money
(c) Fiat money
(d) Digital money

Ans : SQP 2018

(c) Fiat money
Fiat money has no intrinsic value and derives its worth from government decree, making it legal tender for all transactions.

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36. Ms. Kavita discussed a limitation of the barter system where 'goods like cattle or grains cannot easily be stored for long periods without loss of value.' Which limitation does this refer to?
(a) Lack of divisibility
(b) Lack of a store of value
(c) Lack of standard payment
(d) Double coincidence of wants

Ans : MAIN 2014

(b) Lack of a store of value
The barter system lacks a reliable store of value since perishable or bulky goods lose their utility or value over time, unlike money.

37. Mr. Sharma explained that 'in a modern economy, money replaced the barter system because it resolved the inefficiencies of direct exchange.' Which of the following is not a function of money?
(a) Medium of exchange
(b) Measure of value
(c) Store of value
(d) Allocation of resources

Ans : COMP 2016

(d) Allocation of resources
Money performs functions like medium of exchange, measure of value, and store of value, but resource allocation is determined by market forces or planning, not directly by money.

38. **Statement 1 :** The barter system requires a double coincidence of wants, which makes transactions inconvenient.
Statement 2 : The introduction of money eliminated the need for a double coincidence of wants, simplifying trade.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2012

(c) Both Statements 1 and 2 are true.
Barter transactions require both parties to want what the other offers. Money acts as a universal medium, removing this limitation and enabling easier exchanges.

39. **Statement 1 :** Money serves as a measure of value, allowing goods and services to be expressed in monetary terms.
Statement 2 : Without money, it would be easier to compare the value of goods and services.

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Ans : SQP 2023

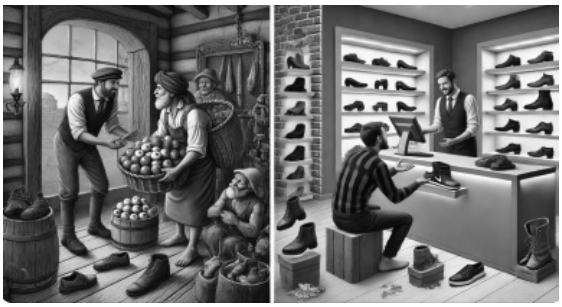
(i) True
Money provides a reliable standard for deferred payments, ensuring that obligations can be settled in the future without disputes over value.

55. "Money eliminates the issue of indivisibility of goods present in the barter system." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2022

(i) True
Money can be divided into smaller units, unlike certain goods in the barter system, which could not be split easily without losing value.

56. Identify the concept represented by the visuals.



(a) Evolution of Banking
(b) Barter System and Medium of Exchange
(c) Functions of Banks
(d) Measure of Value]

Ans : COMP 2021

(b) Barter System and Medium of Exchange
The first visual shows the inconvenience of the barter system, where exchanging goods depends on mutual needs. The second visual highlights the function of money as a medium of exchange, which simplifies transactions.

TWO MARKS QUESTIONS

57. What is the legal definition of money?

Ans : MAIN 2024

Money that is backed by legal sanction from the government is referred to as legal tender or legal tender money. Legal tender or legal money signifies money recognized by the law of the land for transactions.

58. Mention the first four stages of evolution of money.

Ans : SQP 2020

(i) Commodity Money
(ii) Metallic Money
(iii) Paper Money
(iv) Credit Money

59. Explain any one disadvantage of the barter system of exchange.

Ans : COMP 2020

The barter system faced challenges in equating the value of goods due to the lack of a common measure of value. Different goods had varying values, making it difficult to determine fair proportions for exchange. Without a standard unit of measurement, it was unclear how much of one good was equivalent to another, creating inefficiencies in trade.

60. Define the term money.

Ans : MAIN 2020

Money refers to any item or medium that serves as a universally accepted means of exchange for goods and services. It eliminates the limitations of barter by providing a standardized unit of value for transactions.

61. With the help of an example, explain the measure of value function of money.

Ans : SQP 2020

Money acts as a measure of value by expressing the worth of goods or services in monetary terms. For example, if the price of sugar is ₹20 per kilogram, it reflects its value in a standard unit that everyone understands. This function simplifies the process of comparing the values of different goods and services.

62. What do you understand by the term 'near money'?

Ans : COMP 2018

'Near money' refers to assets that can quickly be converted into cash without losing value. These include savings accounts or treasury bills, which are highly liquid but are not directly used for everyday transactions.

63. What is meant by double coincidence of wants? How does money overcome this problem?

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46. **Statement 1 :** One of the limitations of the barter system was the lack of a common unit of account.
Statement 2 : Money resolved this issue by acting as a universally accepted measure of value.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2007

(c) Both Statements 1 and 2 are true.
Barter lacked a unit to measure value uniformly. Money provides a standard unit of account, solving this inconvenience and facilitating trade.

47. **Statement 1 :** Commodity money, like gold or silver, had intrinsic value.
Statement 2 : Modern fiat money has intrinsic value due to the materials it is made of.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2004

(a) Statement 1 is true and Statement 2 is false.
Commodity money like gold had intrinsic value. Modern fiat money lacks intrinsic value and relies solely on trust and legal authority for acceptance.

48. "One of the major inconveniences of the barter system was the lack of a common measure of value." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2008

(i) True
In the barter system, there was no standardized unit to measure the value of goods and services, making it difficult to compare and exchange items effectively.

49. "Money as a medium of exchange eliminates the need for a double coincidence of wants." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2003

(i) True
Money facilitates transactions by serving as a universally accepted medium of exchange, removing the need for both parties to desire each other's goods or services simultaneously.

50. "Store of value is one of the functions of money, allowing individuals to save their wealth for future use." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2002

(i) True
Money can be stored and used in the future without losing its value significantly, which makes it a reliable store of value.

51. "In the barter system, deferred payments were easy to make and universally accepted." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2001

(ii) False
Deferred payments were difficult in the barter system because there was no standard unit of value, and goods might not retain their value over time.

52. "The legal definition of money is any item that is generally accepted as payment for goods and services and repayment of debts." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2010

(i) True
Legally, money is defined by its acceptance in transactions and as a settlement for obligations within a country's economic system.

53. "The evolution of money began with metal coins, followed by the introduction of the barter system." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2024

(ii) False
The evolution of money began with the barter system, followed by the use of commodities, metal coins, paper money, and later digital forms of currency.

54. "The function of money as a standard of deferred payment allows contracts and credit transactions to occur smoothly." Select the appropriate option:
(i) True
(ii) False

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(ii) How Money Solves the Problem : Money acts as a medium of exchange, eliminating the need for a direct exchange of goods. It allows the customer in the second image to easily purchase groceries using currency.

71. "The barter system faced several inconveniences in the exchange of goods and services." Justify this statement with two suitable reasons.

Ans : COMP 2017

(i) Lack of Double Coincidence of Wants : In barter, both parties needed to have goods the other desired at the same time, making trade rare and inefficient.
(ii) Lack of Common Measure of Value : There was no standard way to compare the value of different goods, leading to confusion in determining fair exchange rates.

72. "Money serves as a measure of value and a store of value, making it an essential element of trade." Explain this statement with two reasons for each function.

Ans : MAIN 2013

(i) Measure of Value:
  (a) Money provides a standard unit for valuing goods and services.
  (b) It simplifies comparison between the value of different products.
(ii) Store of Value:
  (a) Money can be saved and used in the future without losing value.
  (b) It enables individuals to plan long-term purchases and investments.

73. "The evolution of money has eliminated the inefficiencies of the barter system and improved trade activities." Discuss this statement with examples of two key stages in the evolution of money.

Ans : SQP 2018

(i) Commodity Money : Goods like grains or cattle were used as early forms of money, addressing some barter inefficiencies by acting as a medium of exchange.
(ii) Metallic Money : Coins made from precious metals provided a durable, divisible, and standardized form of money, further improving trade and economic efficiency.

74. Justify the following statement with any two valid arguments:

"Money overcomes the inefficiencies of the barter system and simplifies trade."

Ans : COMP 2014

(i) Medium of Exchange : Money eliminates the need for a double coincidence of wants, allowing individuals to trade goods and services efficiently.
(ii) Measure of Value : It provides a standard unit to compare the value of different goods and services, simplifying transactions and pricing.

FIVE MARKS QUESTIONS

75. Briefly explain the following with reference to the barter system of exchange:
(i) Lack of common measure of value
(ii) Lack of standard of deferred payments

Ans : MAIN 2024

(i) Lack of common measure of value : In the barter system, there was no universal standard to determine the proportion in which goods should be exchanged. The exchange rate depended on the relative demand and supply of each good, making trade complicated and inconsistent.
(ii) Lack of standard of deferred payments : Barter transactions could not efficiently handle credit-based agreements for future payments. Disagreements often arose regarding the quality, value, or terms of repayment for goods or services, leading to uncertainty and inefficiencies in trade.

76. Define money. Explain the primary functions of money.

Ans : COMP 2023

Money is a universally accepted medium of exchange that functions as a measure of value and a store of value.
Two Primary Functions of Money:
(i) Medium of Exchange : Money acts as an intermediary that facilitates the exchange of goods and services. By eliminating the problem of double coincidence of wants in the barter system, money enables individuals to sell their goods and services for money and use that money to purchase what they need. This makes transactions efficient and convenient. The exchange process involves two parts : selling and purchasing.

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CHAPTER 5

BANKING SYSTEM

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SUMMARY

1. COMMERCIAL BANKS

Commercial banks are financial institutions that perform critical functions in an economy by accepting deposits, granting loans, and offering various financial services to individuals, businesses, and the government. They act as intermediaries, mobilizing savings from the public and providing funds for productive purposes such as investments, trade, and consumption. Commercial banks support economic growth by ensuring the smooth flow of money within the economy and by encouraging financial inclusion.

1.1 Functions of Commercial Banks

1. **Accepting Deposits :** Commercial banks mobilize public savings by offering secure deposit options. These deposits form the foundation of the banking system, enabling banks to extend loans and create credit. The types of deposits include :
   (i) **Demand Deposits :** These are payable on demand and are particularly suited for individuals and businesses requiring frequent withdrawals.
   (ii) **Savings Deposits :** These accounts encourage savings while offering interest and allowing moderate withdrawal flexibility.
   (iii) **Current Deposits :** Mostly used by businesses, these accounts allow unlimited withdrawals but usually do not provide interest.
   (iv) **Fixed Deposits :** In this type of account, funds are locked in for a fixed duration, earning higher interest rates. Withdrawals before maturity are subject to penalties, providing banks with stable funds to lend.

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2. **Advancing Loans :** The primary role of banks is to provide financial assistance in the form of loans to individuals, businesses, and industries. This enables economic activities such as starting new ventures, expanding operations, and managing day-to-day expenses.
   Types of Loans :
   (i) **Term Loans :** These are loans with fixed durations, commonly used for purchasing machinery, real estate, or funding expansion projects.
   (ii) **Cash Credit :** Banks provide this facility against secured assets like inventory or receivables to meet working capital needs.
   (iii) **Overdrafts :** A short-term facility allowing customers to withdraw more money than their account balance, usually for urgent financial requirements.
   Methods of Loan Advancement :
   (i) **Direct Lending :** Banks issue loans directly to borrowers for various purposes, ranging from personal needs to business investments.
   (ii) **Discounting Bills of Exchange :** Banks provide immediate funds to sellers by purchasing their bills of exchange at a discount before maturity.
3. **Credit Creation :** Commercial banks play a pivotal role in expanding the money supply through credit creation. This process begins with banks receiving deposits from customers. They retain a portion of these deposits as reserves (as per the Cash Reserve Ratio or CRR) and lend the remaining amount to borrowers. When these borrowers spend the borrowed money, it re-enters the banking system as new deposits, enabling the banks to lend further.
   (i) **Primary Deposits :** These are the initial deposits made by customers in banks.
   (ii) **Derivative Deposits :** These are deposits created as a result of loans issued by banks.

83. By giving valid reasons, explain which of the following illustrates a function of money:
(i) Mr. Roy borrows ₹10,000 from his friend, promising to repay in one year.
(ii) Mr. Roy uses money to evaluate the cost of renting a house.

Ans : SQP 2018

(i) Standard of Deferred Payment : This illustrates the standard of deferred payment function, as Mr. Roy uses money to settle a credit transaction in the future.
(ii) Measure of Value : This shows the measure of value function, where Mr. Roy assesses the rent in monetary terms for better decision-making.

84. Read the extract and answer the following questions:
A group of farmers in a village are facing difficulties in trading their produce as there is no common medium for exchange. They often struggle to find someone who needs what they offer.
(i) Identify the main problem faced by the farmers.
(ii) Suggest how the introduction of money as a medium of exchange can solve this problem.

Ans : COMP 2021

(i) The main problem faced by the farmers is the lack of a double coincidence of wants in the barter system.
(ii) Money as a medium of exchange eliminates the need for both parties to want each other's goods at the same time. Farmers can sell their produce for money, which is universally accepted, and then use that money to purchase what they need. This simplifies transactions, improves trade efficiency, and overcomes the limitations of bartering.

85. Read the extract and answer the following questions:
A businessman saves a portion of his profits in a bank account and uses the remaining amount to pay for raw materials. He often uses his savings to fund his future investments.
(i) Identify the two functions of money described in the extract.
(ii) Explain any two characteristics of each of the identified functions.

Ans : MAIN 2000

(i) The two functions of money described are:
(a) Store of Value (saving profits for future use).
(b) Medium of Exchange (paying for raw materials).
(ii) Characteristics:
(a) Store of Value : (i) Money retains its value over time. (ii) It allows individuals to save and plan for the future.
(b) Medium of Exchange : (i) Money facilitates the buying and selling of goods without barter. (ii) It is widely accepted, making transactions efficient and straightforward.

86. Read the extract and answer the following questions:
A group of workers received their wages in cash and decided to save some for the future while spending the rest on their daily needs. They appreciated how convenient it was to trade with money compared to bartering goods.
(i) Highlight the two functions of money evident in this scenario.
(ii) Discuss how these functions address the limitations of the barter system.

Ans : SQP 2005

(i) The two functions of money are:
(a) Medium of Exchange (spending wages on daily needs).
(b) Store of Value (saving wages for future use).
(ii) Money as a medium of exchange overcomes the lack of a double coincidence of wants, enabling easy trade without bartering. As a store of value, money allows workers to save without the risk of goods deteriorating or losing value, unlike perishable commodities used in barter.

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4. DEMONETIZATION

Demonetization is the process by which the government invalidates the legal tender status of specific currency notes. This policy is often implemented to address issues such as black money, counterfeit currency, corruption and terrorism financing.

4.1 Objectives of Demonetization

1. To eliminate unaccounted wealth and black money.
2. To combat counterfeit currency and reduce its use in illegal activities.
3. To promote digital transactions and reduce cash dependency in the economy.
4. To broaden the tax base by bringing more transactions into the formal financial system.

4.2 Impact of Demonetization

Demonetization has both short-term and long-term effects. In the short term, it causes disruptions in cash-based sectors, reduces liquidity, and creates inconvenience for the public. However, its long-term objectives include enhanced financial transparency, increased tax compliance, formalization of the economy, and a shift toward digital transactions. The success of demonetization depends on effective implementation and complementary reforms.

MULTIPLE CHOICE QUESTION

1. When State Bank of India is under financial crisis and borrows money from Central Bank at a certain rate against approved securities, it will be called as:
(a) Interest rate
(b) Lending rate
(c) Reverse lending
(d) Bank rate

Ans : MAIN 2024

(d) Bank rate
A bank rate refers to the interest rate at which a country's central bank provides loans to domestic banks, typically for very short-term borrowing.

2. ..... Deposits earn very low rate of interest on it.
(a) Demand (b) Saving
(c) Recurring (d) Cumulative

Ans : COMP 2023

(b) Saving
Savings deposits offer low interest rates but provide easy access to funds on demand.

3. The apex bank which controls, regulates, and supervises the activities of commercial banks is the ..... .
(a) Central Bank
(b) Scheduled Banks
(c) State Bank of India
(d) State Government

Ans : SQP 2022

(a) Central Bank
The Reserve Bank of India (RBI), known as the Central Bank, oversees the banking system and monetary policy of the country. It holds a reserve comprising a portion of deposits from other banks.

4. Which of the following is an apex institution in the banking structure of our country?
(a) Commercial Bank
(b) Private Bank
(c) None of these
(d) Reserve Bank of India

Ans : MAIN 2021

(d) Reserve Bank of India
The Reserve Bank of India (RBI) is the apex institution of our country's banking structure. It functions as the central bank and regulator of the banking system.

5. RBI regulates activities of _____ banks.
(a) Co-operative banks
(b) Industrial banks
(c) Commercial banks
(d) All of these

Ans : COMP 2021

(d) All of these
The RBI regulates the formal credit system, including commercial banks, co-operative banks, and industrial banks.

6. Which of the below options is a function of the central bank?
(a) Banker to the government
(b) Custodian of foreign exchange reserves
(c) Banker's bank
(d) All of the above

Ans : SQP 2020

(d) All of the above

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2. CENTRAL BANK

The Central Bank is the apex financial institution responsible for regulating and supervising the monetary and banking systems of a country. Its primary objectives include maintaining economic stability, controlling inflation, managing the money supply, and supporting economic growth. Unlike commercial banks, the Central Bank does not deal directly with the public but focuses on policy formulation and oversight. The Reserve Bank of India (RBI) serves as the Central Bank of India.

2.1 Functions of the Central Bank

1. Monopoly of Note Issue : The Central Bank has the sole authority to issue currency notes in a country. This ensures uniformity, prevents counterfeiting, and provides the Central Bank with control over the money supply. By regulating currency issuance, the Central Bank manages inflation and ensures economic stability.
2. Bankers' Bank : The Central Bank acts as the banker to all commercial banks. It supervises and regulates their operations, ensuring compliance with financial guidelines. It also provides them with necessary financial support during liquidity crises, facilitates interbank settlements, and serves as a clearinghouse for transactions.
3. Banker, Agent, and Advisor to the Government : The Central Bank manages government accounts, oversees public borrowing through bond issuance, and advises the government on fiscal and monetary policies. It also supports the government in implementing economic programs and managing public debt.
4. Custodian of Foreign Exchange : The Central Bank maintains and manages the country's foreign exchange reserves, stabilizes the currency's value in international markets, and ensures smooth international trade. It intervenes in the foreign exchange market to prevent excessive fluctuations in currency rates.
5. Lender of Last Resort : During financial crises or liquidity shortages, the Central Bank provides emergency funds to commercial banks to maintain their stability. This function prevents the collapse of financial institutions and ensures public confidence in the banking system.

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3. MONETARY POLICY OF THE CENTRAL BANK

Monetary policy refers to the Central Bank's strategy to regulate the economy by controlling the supply of money, credit, and interest rates. It aims to achieve key objectives such as controlling inflation, stabilizing the currency, promoting employment, and fostering economic growth. The tools used by the Central Bank to implement monetary policy are classified into qualitative and quantitative measures.

3.1 Qualitative Credit Control Measures

These measures focus on influencing the allocation and use of credit.

1. Margin Requirements : The Central Bank sets a margin, requiring borrowers to provide collateral worth more than the loan amount. This discourages excessive borrowing for speculative purposes.
2. Credit Rationing : By restricting credit to certain sectors, the Central Bank ensures that essential sectors like agriculture and infrastructure receive adequate funding.
3. Moral Suasion : Through persuasion and advisory measures, the Central Bank encourages commercial banks to adopt policies that align with national objectives, such as reducing speculative lending or supporting small businesses.

3.2 Quantitative Credit Control Measures

These measures regulate the overall money supply and liquidity in the economy.

1. Bank Rate : The interest rate at which the Central Bank lends to commercial banks. Adjusting this rate influences borrowing costs across the economy, affecting investment and consumption.
2. Open Market Operations : The Central Bank buys or sells government securities to control liquidity. Selling securities reduces excess liquidity, while buying securities injects money into the economy.
3. Cash Reserve Ratio (CRR) : Banks must maintain a certain percentage of their deposits with the Central Bank as reserves. Increasing CRR reduces liquidity, while lowering it increases the money supply.
4. Statutory Liquidity Ratio (SLR) : Banks are required to maintain a specified percentage of their deposits in liquid assets like gold or government-approved securities. This ensures financial stability and prevents excessive lending.

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(ii) Measure of Value : Money provides a standard unit to measure the value of goods and services. For example, the price of sugar can be expressed in monetary terms, such as ₹20 per kilogram, making it easy to compare and evaluate different products.

77. Explain the secondary functions of money.

Ans : SQP 2016

The secondary functions of money are:
(i) Deferred Payments : Money facilitates borrowing and lending by providing a standard for future payments.
(ii) Store of Value : It enables individuals to save and store wealth for future use without losing value.
(iii) Transfer of Value : Money allows easy and quick transfer of value from one person or place to another since it is universally accepted.

78. "In the context of the inconvenience faced under the barter system, explain the role of money in addressing these challenges and promoting trade efficiency. What are the key functions of money that support this improvement?"

Ans : MAIIN 2012

Money addresses the inefficiencies of the barter system by acting as a universal medium of exchange, eliminating the need for a double coincidence of wants. It simplifies transactions by providing a common measure of value, making it easier to compare and price goods. Additionally, money serves as a store of value, allowing wealth to be saved and used in the future, further enhancing trade efficiency and economic growth.

79. "Considering the evolution of money from commodity to metallic and paper forms, discuss how each stage addressed the limitations of its predecessor and contributed to the development of modern economies."

Ans : COMP 2000

Commodity money, such as grains or cattle, was bulky and deteriorated over time, leading to the adoption of metallic money, which was durable, divisible, and valuable. Metallic money was later replaced by paper money due to its portability and convenience for large transactions. Each stage improved trade by overcoming storage, transport, and divisibility challenges, paving the way for efficient economic systems and global commerce.

80. "With reference to the functions of money, explain how money acts as a measure of value and a store of value. Why are these functions crucial for stable economic systems?"

Ans : SQP 2005

Money as a measure of value provides a standardized unit for pricing and comparing goods and services, fostering transparent and fair trade. Its store of value function enables individuals to save money for future needs without the risk of depreciation. These functions stabilize economies by encouraging efficient resource allocation, enabling long-term investments, and supporting consistent trade and consumption patterns.

CASE BASED QUESTION

81. By giving valid reasons, explain which of the following illustrates a function of money:
(i) Mr. Khan uses money to purchase groceries.
(ii) Mr. Khan saves a portion of his earnings in a bank for future use.

Ans : MAIN 2024

(i) Medium of Exchange : This demonstrates the function of money as a medium of exchange, enabling Mr. Khan to buy goods (groceries) without the need for barter.
(ii) Store of Value : This highlights the store of value function, as Mr. Khan saves his earnings for future needs, preserving its value over time.

82. By giving valid reasons, explain which of the following illustrates a function of money:
(i) Ms. Aditi pays ₹50 to buy a book.
(ii) Ms. Aditi compares the price of two lap tops to choose the cheaper one.

Ans : COMP 2011

(i) Medium of Exchange : This demonstrates the medium of exchange function, as Ms. Aditi uses money to facilitate the purchase of a book without direct exchange.
(ii) Measure of Value : This highlights the measure of value function, where Ms. Aditi uses money as a standard to compare the prices of two laptops.

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The Central Bank performs multiple functions, such as managing government accounts, regulating foreign exchange reserves, and acting as a banker to other banks.

7. Which institution grants loans to borrowers against their collateral securities?
(a) Central Bank
(b) None of these
(c) Industrial banks
(d) Commercial banks

Ans : MAIN 2019

(d) Commercial banks
Commercial banks offer loans to individuals and businesses based on collateral securities, ensuring secured lending practices.

8. Margin refers to:
(a) Limit of loan provided by the RBI to other banks
(b) Difference between the value of collateral security and value of loan
(c) Rate of interest levied by the bank
(d) None of these

Ans : COMP 2017

(b) Difference between the value of collateral security and value of loan
The margin is the difference between the value of the collateral pledged and the loan amount sanctioned by the bank.

9. Identify the types of deposits commercial banks accept:
(a) Fixed deposit
(b) Savings account deposit
(c) Current account deposits
(d) All of the above

Ans : SQP 2013

(d) All of the above
Commercial banks accept various types of deposits, including fixed, savings, and current account deposits, catering to different customer needs.

10. How many types of demonetization are there?
(a) 4
(b) 1
(c) 3
(d) 2

Ans : MAIN 2018

(d) 2
There are two types of demonetization : partial demonetization, where only specific denominations are withdrawn, and total demonetization, which affects all currency notes.

11. When was demonetization announced in India?
(a) 10th November 2016
(b) 8th November 2017
(c) 6th November 2015
(d) 8th November 2016

Ans : COMP 2014

(d) 8th November 2016
The Government of India announced demonetization on 8th November 2016, withdrawing ₹500 and ₹1000 notes to combat black money and counterfeit currency.

12. How many days were given to the public for exchange of demonetized notes?
(a) 30
(b) 40
(c) 50
(d) 90

Ans : SQP 2016

(c) 50
The public was given a 50-day period to exchange their demonetized notes, facilitating the transition to new currency.

13. Identify a purpose for demonetization:
(a) To improve tax compliance
(b) Support tax administration
(c) Channelizing savings of individuals into the formal financial system
(d) All of the above

Ans : MAIN 2012

(d) All of the above
Demonetization aims to reduce black money, promote tax compliance, and bring unaccounted savings into the formal financial system.

14. Which of the following statements is not correct about demonetization in India?
(a) There was no limit on the withdrawal or exchange per day
(b) New ₹500 and ₹2000 notes were introduced
(c) 50 days were given to the public to exchange their demonetized currency
(d) Government announced demonetization on 8th November 2016

Ans : COMP 2000

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(a) There was no limit on the withdrawal or exchange per day
There were strict limits on daily and weekly withdrawal and exchange of notes during the 50-day period following demonetization to ensure controlled currency distribution.

15. Which body supervises the functioning of formal sources of loans?
(a) Ministry of Finance
(b) RBI
(c) Co-operative societies
(d) None of the above

Ans : SQP 2015

(b) RBI
The RBI supervises formal sources of loans, ensuring fair lending practices, transparency and adherence to banking regulations.

16. Which among these is not a monetary tool?
(a) SLR
(b) Deficit financing
(c) Open market operations
(d) CRR

Ans : MAIN 2015

(b) Deficit financing
Deficit financing is a fiscal policy tool where the government spends more than its revenue and covers the shortfall through borrowing or printing money. It is not a monetary policy tool, which includes measures like SLR, CRR and open market operations.

17. Overdraft facility is available on:
(a) Saving account
(b) Current account
(c) Posting account
(d) Time deposit

Ans : COMP 2021

(b) Current account
Overdraft is a facility provided to current account holders, allowing them to withdraw more money than their account balance. This is a short-term credit mechanism typically used by businesses to manage cash flow.

18. Bank having power of note issue in India is:
(a) State Bank of India
(b) Reserve Bank of India
(c) Canara Bank
(d) Federal Bank

Ans : SQP 2022

(b) Reserve Bank of India
The Reserve Bank of India (RBI) is the sole authority responsible for issuing currency notes in India. This monopoly ensures centralized control of the money supply and currency management.

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19. **Assertion (A) :** Commercial banks accept deposits from the public to provide a safe place for their savings.
Reason (R) : Commercial banks offer different types of deposits, such as savings deposits, fixed deposits, and current deposits.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2011

(a) Both A and R are true, and R is the correct explanation of A.
Commercial banks accept deposits for safekeeping and offer various deposit types tailored to customer needs, which explains why they are considered secure places for savings.

20. **Assertion (A) :** Credit creation by commercial banks increases the money supply in the economy.
Reason (R) : Credit creation occurs when banks lend money based on both primary and derivative deposits.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2009

(a) Both A and R are true, and R is the correct explanation of A.
Credit creation expands the money supply as banks lend a multiple of their reserves, using both primary and derivative deposits to generate loans.

21. **Assertion (A) :** The central bank acts as a lender of the last resort to commercial banks during financial crises.
Reason (R) : The central bank provides short-term loans to commercial banks to prevent their collapse and stabilize the economy.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2005

(a) Both A and R are true, and R is the correct explanation of A.
The central bank ensures stability during financial crises by offering loans to commercial banks as a last resort, preventing systemic risks and maintaining economic confidence.

22. **Assertion (A) :** Open market operations involve the purchase and sale of government securities by the central bank.
Reason (R) : Open market operations help regulate the money supply by influencing the liquidity in the banking system.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2006

(a) Both A and R are true, and R is the correct explanation of A.
By buying or selling government securities, the central bank adjusts liquidity in the banking system, influencing the money supply and interest rates.

23. **Assertion (A) :** Demonetization aims to curb black money and reduce counterfeit currency circulation in the economy.
Reason (R) : During demonetization, the government declares specific currency notes invalid for transactions, replacing them with new notes.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2007

(a) Both A and R are true, and R is the correct explanation of A.
Demonetization targets black money and counterfeit notes by invalidating certain currency denominations, compelling individuals to deposit cash in banks for scrutiny.

24. Study the relationship in the first pair of terms and complete the second pair.
(i) Demand Deposits : Withdrawable on demand.
(ii) Fixed Deposits : _____.
(a) Withdrawable anytime without notice
(b) Withdrawable after a fixed period
(c) Withdrawable only partially
(d) Withdrawable only with approval

Ans : SQP 2004

(b) Withdrawable after a fixed period
Fixed deposits require customers to keep money deposited for a specified duration, offering higher interest rates than demand deposits and not being withdrawable at will.

25. Study the relationship in the first pair of terms and complete the second pair.
(i) Central Bank : Monopoly of note issue.
(ii) Commercial Bank : _____.
(a) Lender of the last resort
(b) Accepts deposits and advances loans
(c) Manages foreign exchange
(d) Acts as banker to the government

Ans : MAIN 2008

(b) Accepts deposits and advances loans
Commercial banks perform the dual function of accepting deposits from the public and advancing loans, making them key players in facilitating financial transactions.

26. Study the relationship in the first pair of terms and complete the second pair.
(i) Credit Rationing : Qualitative credit control measure.
(ii) CRR (Cash Reserve Ratio) : _____.
(a) Quantitative credit control measure
(b) Moral suasion measure
(c) Custodian of foreign exchange
(d) Credit creation measure

Ans : COMP 2003

(a) Quantitative credit control measure
The CRR is a quantitative tool used by the central bank to control liquidity by requiring commercial banks to maintain a specific portion of deposits as reserves.

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27. Study the relationship in the first pair of terms and complete the second pair.
(i) Open Market Operations : Buying and selling government securities.
(ii) Bank Rate : _____.
(a) Interest rate for public deposits
(b) Rate at which the central bank lends to commercial banks
(c) Fixed rate for savings accounts
(d) Foreign exchange management rate

Ans : SQP 2002

(b) Rate at which the central bank lends to commercial banks
The bank rate is the interest rate charged by the central bank when lending funds to commercial banks, influencing overall interest rates in the economy.

28. Study the relationship in the first pair of terms and complete the second pair.
(i) Demonetization : Withdrawal of currency notes as legal tender.
(ii) Monetary Policy : _____.
(a) Management of public spending
(b) Fiscal policy adjustments
(c) Regulation of money supply and credit
(d) Tax policy management

Ans : MAIN 2001

(c) Regulation of money supply and credit
Monetary policy involves regulating the money supply and credit in the economy through tools like the bank rate, CRR and open market operations to maintain economic stability.

29. Study the relationship in the first pair of terms and complete the second pair.
(i) Central Bank : Lender of the last resort.
(ii) Commercial Bank : _____.
(a) Maintains price stability
(b) Accepts deposits and provides loans
(c) Issues currency notes
(d) Manages government accounts

Ans : COMP 2010

(b) Accepts deposits and provides loans
Commercial banks serve the public by accepting deposits and advancing loans, facilitating day-to-day financial transactions, unlike the central bank's role as the lender of last resort.

30. Study the relationship in the first pair of terms and complete the second pair.
(i) Qualitative Credit Control : Moral suasion.
(ii) Quantitative Credit Control : _____.
(a) Margin requirements
(b) Bank rate
(c) Credit rationing
(d) Flexible interest rates

Ans : SQP 2024

(b) Bank rate
Quantitative credit control includes tools like the bank rate, CRR, and open market operations to control the overall money supply and credit volume in the economy.

31. Study the relationship in the first pair of terms and complete the second pair.
(i) Primary Deposits : Deposits received directly from customers.
(ii) Derivative Deposits : _____.
(a) Loans given to the public
(b) Deposits created through credit creation
(c) Fixed-term savings deposits
(d) Long-term investments

Ans : MAIN 2023

(b) Deposits created through credit creation
Derivative deposits are created when banks lend money, and borrowers deposit the funds back into the banking system, expanding the money supply.

32. Study the relationship in the first pair of terms and complete the second pair.
(i) CRR : Percentage of deposits kept as reserves with the central bank.
(ii) SLR : _____.
(a) Interest-free deposits of banks
(b) Proportion of deposits kept in liquid assets
(c) Amount banks lend to the public
(d) Reserve funds maintained abroad

Ans : COMP 2022

(b) Proportion of deposits kept in liquid assets
SLR (Statutory Liquidity Ratio) requires commercial banks to keep a specific percentage of their deposits in liquid assets like cash, gold, or approved securities.

33. Study the relationship in the first pair of terms and complete the second pair.
(i) Demonetization : Withdrawal of old currency notes.
(ii) Inflation Control : _____.
(a) Introduction of higher-value notes
(b) Regulating money supply and credit
(c) Increasing public spending
(d) Removing cash entirely

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Ans : SQP 2021

(b) Regulating money supply and credit
Inflation control involves regulating the money supply and credit in the economy to stabilize prices and manage demand, often through monetary policy tools like CRR and bank rate adjustments.

34. "Commercial banks provide loans to individuals and businesses based on collateral and repayment capacity."
Which function of commercial banks does this describe?
(a) Accepting deposits.
(b) Advancing loans.
(c) Credit creation.
(d) Custodian of foreign exchange.

Ans : MAIN 2020

(b) Advancing loans.
Advancing loans is a key function of commercial banks, enabling individuals and businesses to access funds for various purposes, including personal needs and business growth, often against collateral or repayment capacity.

35. "The Central Bank is responsible for issuing currency in an economy."
Which function of the Central Bank does this describe?
(a) Bankers' bank.
(b) Monopoly of note issue.
(c) Custodian of foreign exchange.
(d) Lender of the last resort.

Ans : COMP 2019

(b) Monopoly of note issue.
The Central Bank has the sole authority to issue currency notes, ensuring uniformity and trust in the monetary system while managing money supply effectively.

36. "RBI increases the Cash Reserve Ratio (CRR) to control inflation."
Which monetary policy measure is represented in this statement?
(a) Qualitative credit control.
(b) Open market operations.
(c) Quantitative credit control.
(d) Moral suasion.

Ans : SQP 2017

(c) Quantitative credit control.
Quantitative measures, like CRR, regulate the money supply in the economy. By increasing CRR, the Central Bank reduces funds available to commercial banks, thereby controlling inflation.

37. "The Central Bank persuades commercial banks to prioritize lending to specific sectors like agriculture."
Which credit control measure is represented in this statement?
(a) Margin requirements.
(b) Credit rationing.
(c) Open market operations.
(d) Moral suasion.

Ans : MAIN 2013

(d) Moral suasion.
Moral suasion is a qualitative credit control measure where the Central Bank uses persuasion or guidelines to influence commercial banks' lending policies for specific purposes.

NODIA

38. "In 2016, ₹500 and ₹1,000 currency notes were withdrawn from circulation in India."
What does this event illustrate?
(a) Monetary policy.
(b) Demonetization.
(c) Open market operation.
(d) Statutory liquidity ratio adjustment.

Ans : COMP 2018

(b) Demonetization.
Demonetization refers to the withdrawal of certain currency notes from circulation to combat corruption, counterfeit currency, and unaccounted money in the economy.

39. "Commercial banks create credit by lending a portion of the deposits they receive."
Which process is described in this statement?
(a) Accepting deposits.
(b) Advancing loans.
(c) Credit creation.
(d) Margin requirement.

Ans : SQP 2014

(c) Credit creation.
Credit creation occurs when commercial banks use primary deposits to advance loans, leading to derivative deposits and a multiplied expansion of money supply in the economy.

40. "The Central Bank acts as a lender to commercial banks in times of financial crises."
Which function of the Central Bank is this?

(i) By invalidating high-denomination notes, demonetization removes unaccounted wealth stored in cash form.
(ii) It eliminates counterfeit currency from circulation, enhancing monetary security and trust in the financial system.

102. Justify the following statement with any two valid arguments:
"The Central Bank acts as a 'Lender of the Last Resort' to stabilize the banking system during financial crises."

Ans : MAIN 2024

(i) The Central Bank provides emergency loans to banks facing liquidity crises, preventing their collapse.
(ii) It stabilizes the financial system by ensuring the continuity of banking operations and public confidence in the economy.

FIVE MARKS QUESTIONS

103. Give five points of difference between Commercial and Central Bank.

Ans : SQP 2024,2020

Aspect	**Commercial Banks**	**Central Banks**
Purpose	Serve individuals and businesses for profit	Oversee the monetary system and implement monetary policy
Ownership	Owned by private individuals or shareholders	Owned or operated by the government with varying degrees of independence
Functions	Accept deposits, provide loans, and offer financial services	Issue currency, regulate money supply, and set interest rates
Role in Monetary Policy	Implement monetary policy set by the central bank	Set and implement monetary policy
Control	Subject to regulatory oversight by central banks and government authorities	Regulate and supervise commercial banks, ensuring financial stability

104. (i) What is an overdraft facility?
(ii) Differentiate between demand deposits and fixed deposits. (Three points)

Ans : MAIN 2024

(i) Overdraft Facility : An overdraft facility is a financial service offered by banks that allows account holders to withdraw funds exceeding the available balance in their bank account, up to a predetermined limit. It essentially provides short-term credit to the account holder, enabling them to make payments or cover expenses even when their account balance is insufficient.
(ii) Difference Between Demand Deposits and Fixed Deposits:

Basis	**Demand Deposits**	**Fixed Deposits**
Access to Funds	Freely accessible anytime for withdrawals and deposits.	Limited access until maturity.
Interest Rates	Lower interest rates compared to fixed deposits.	Higher interest rates based on term and market conditions.
Term	No fixed term, can be held indefinitely.	Fixed term agreed at deposit, accessible after maturity.
Flexibility	High flexibility for daily transactions.	Low flexibility; funds locked for the deposit term.
Risk and Return	Low-risk but lower returns.	Low-risk with guaranteed higher returns.
Purpose	Used for daily banking and liquidity needs.	Ideal for savings and investments over a fixed term.

105. How is the Central Bank a 'banker to the government'?

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(a) Fiscal policy
(b) Monetary policy
(c) Open market operations
(d) Foreign exchange management

Ans : COMP 2006

(b) Monetary policy
Monetary policy refers to measures taken by the central bank to control the money supply and credit in the economy, ensuring stability and growth.

48. Mr. Arvind discussed 'the central bank's method of controlling credit by instructing banks to maintain a specific percentage of their deposits as reserves with the central bank.' What is this measure called?
(a) Bank rate
(b) Open market operations
(c) Cash Reserve Ratio (CRR)
(d) Statutory Liquidity Ratio (SLR)

Ans : SQP 2007

(c) Cash Reserve Ratio (CRR)
CRR is a quantitative credit control measure requiring banks to hold a fixed percentage of their deposits as reserves, reducing their lending capacity and controlling credit.

49. Ms. Rekha explained that 'commercial banks provide loans to individuals and businesses for various purposes, such as personal, industrial, or housing needs.' What is this function of commercial banks called?
(a) Credit creation
(b) Advancing loans
(c) Accepting deposits
(d) Open market operations

Ans : MAIN 2004

(b) Advancing loans
Advancing loans is a key function of commercial banks, where they provide funds to individuals or businesses for various needs, such as personal, industrial, and housing purposes.

50. Mr. Suresh discussed the central bank's role as 'the lender to commercial banks during financial crises to prevent liquidity shortages.' What is this function of the central bank called?
(a) Monopoly of note issue
(b) Lender of the last resort
(c) Banker's bank
(d) Moral suasion

Ans : COMP 2008

(b) Lender of the last resort
The central bank acts as the lender of the last resort by providing financial assistance to commercial banks in times of liquidity crises to maintain stability in the banking system.

51. Ms. Priya explained a credit control measure where 'the central bank buys or sells government securities in the open market to control money supply.' What is this measure called?
(a) Open market operations
(b) Bank rate policy
(c) Credit rationing
(d) Statutory liquidity ratio

Ans : SQP 2003

(a) Open market operations
Open market operations involve the central bank buying or selling government securities to influence the liquidity and credit availability in the economy.

52. **Statement 1 :** Commercial banks accept deposits from the public and offer interest on those deposits.
Statement 2 : Fixed deposits are a type of deposit that can be withdrawn at any time without notice.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2002

(a) Statement 1 is true and Statement 2 is false.
Commercial banks accept deposits, such as fixed deposits, which require a fixed tenure and cannot be withdrawn prematurely without penalties.

53. **Statement 1 :** Credit creation by commercial banks occurs through primary deposits only.
Statement 2 : Derivative deposits are created when banks provide loans, leading to an increase in money supply.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2001

(b) Statement 1 is false and Statement 2 is true.
Credit creation involves both primary and derivative deposits. Derivative deposits arise when loans are extended, leading to increased money supply in the economy.

54. **Statement 1 :** The central bank has the monopoly of issuing currency notes in a country.
Statement 2 : Commercial banks also issue notes to facilitate lending and borrowing.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2010

(a) Statement 1 is true and Statement 2 is false.
The central bank exclusively issues currency notes, ensuring uniformity. Commercial banks cannot issue currency but facilitate transactions through deposits and credit.

55. **Statement 1 :** The central bank acts as the lender of the last resort for commercial banks.
Statement 2 : It provides this support by granting loans to banks facing liquidity crises.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2024

(c) Both Statements 1 and 2 are true.
The central bank lends to commercial banks in financial distress to maintain financial stability, acting as a lender of the last resort.

56. **Statement 1 :** Open Market Operations involve the central bank buying or selling government securities to regulate money supply.
Statement 2 : Selling government securities increases the liquidity in the banking system.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2023

(a) Statement 1 is true and Statement 2 is false.
Open Market Operations regulate liquidity. Selling government securities reduces liquidity as money flows from banks to the central bank.

57. **Statement 1 :** Demonetization is the process of withdrawing the legal status of currency notes as a medium of exchange.
Statement 2 : Demonetization always results in an immediate increase in money supply.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2022

(a) Statement 1 is true and Statement 2 is false.
Demonetization withdraws the legal tender status of specific notes. It usually reduces money supply temporarily until new notes are introduced.

58. "Commercial banks create credit by issuing notes and coins." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2021

(ii) False
Commercial banks create credit through advancing loans and deposits, not by issuing notes and coins, which is the monopoly of the central bank.

59. "A fixed deposit is repayable on demand without any maturity period." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2020

(ii) False
A fixed deposit has a specific maturity period, and the amount is not withdrawable on demand without penalties.

60. "Primary deposits form the basis for derivative deposits in credit creation." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2019

(i) True
Primary deposits serve as the foundation for derivative deposits, which occur when banks advance loans and credit balances are created.

61. "Commercial banks serve as intermediaries by accepting deposits and advancing loans." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2017

(i) True
Commercial banks accept deposits from the public and use these funds to provide loans, performing their intermediary role.

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62. "The central bank is the sole authority responsible for issuing currency notes in an economy." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2013

(i) True
The central bank has the monopoly of note issuance, ensuring uniformity and control over the money supply.

63. "The central bank acts as a lender of the last resort by providing financial assistance to commercial banks in times of crisis." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2018

(i) True
As the lender of the last resort, the central bank provides emergency funds to commercial banks to maintain stability in the financial system.

64. "The central bank manages foreign exchange reserves to ensure stability in international transactions." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2014

(i) True
The central bank is the custodian of foreign exchange reserves and ensures stability in the country's external value of currency.

65. "Credit rationing is a quantitative credit control measure used by the central bank." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2016

(ii) False
Credit rationing is a qualitative credit control measure aimed at restricting credit for specific sectors or purposes.

66. "Open Market Operations refer to the central bank's buying and selling of government securities to regulate money supply." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2012

(i) True
By buying or selling securities, the central bank influences liquidity in the economy and controls money supply.

67. "Increasing the Cash Reserve Ratio (CRR) reduces the credit-creating capacity of commercial banks." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2000

(i) True
A higher CRR requires banks to keep more reserves with the central bank, reducing the funds available for lending.

68. "Demonetization refers to the process of withdrawing the legal tender status of a currency." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2015

(i) True
Demonetization is the act of declaring a specific denomination of currency invalid for transactions to curb corruption, black money, or counterfeit currency.

69. "The primary objective of demonetization is to promote foreign trade." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2011

(ii) False
The primary objectives of demonetization include reducing corruption, black money, and counterfeit currency, not promoting foreign trade.

TWO MARKS QUESTIONS

70. Give any one difference between Commercial bank and Central bank.

Ans : MAIN 2023 , 2015

The Central Bank serves as the supervisory body overseeing the banking system of the nation, while commercial banks operate under the guidance and regulations established by the central bank.

(a) Banker to the government.
(b) Monopoly of note issue.
(c) Lender of the last resort.
(d) Custodian of foreign exchange.

Ans : MAIN 2016

(c) Lender of the last resort.
The Central Bank provides financial assistance to commercial banks in times of liquidity crises, ensuring stability in the banking system and the economy.

41. The RBI sells government securities in the open market to control inflation."
Which credit control measure is described?
(a) Credit rationing.
(b) Moral suasion.
(c) Open market operations.
(d) Bank rate policy.

Ans : COMP 2012

(c) Open market operations.
Open market operations involve buying or selling government securities to regulate money supply. Selling securities reduces liquidity in the economy, controlling inflation effectively.

42. The Central Bank advises the government on fiscal and economic policies."
Which function of the Central Bank does this represent?
(a) Lender of the last resort.
(b) Banker to the government.
(c) Monopoly of note issue.
(d) Agent and advisor to the government.

Ans : SQP 2000

(d) Agent and advisor to the government.
The Central Bank acts as an advisor to the government, providing expertise on fiscal, monetary, and economic policies to ensure stable and sustainable economic development.

43. RBI lowers the bank rate to encourage borrowing and investment."
What does this measure illustrate?
(a) Qualitative credit control.
(b) Credit rationing.
(c) Quantitative credit control.
(d) Margin requirement adjustment.

Ans : MAIN 2015

(c) Quantitative credit control.
Lowering the bank rate is a quantitative measure to increase money supply by encouraging borrowing and investments, thus stimulating economic activity during slowdowns.

44. Mr. Sharma explained that 'commercial banks accept deposits from the public and provide loans to individuals and businesses.' What is this primary function of commercial banks called?
(a) Credit creation
(b) Deposit mobilization
(c) Financial intermediation
(d) Accepting deposits

Ans : COMP 2011

(d) Accepting deposits
Commercial banks accept various types of deposits such as savings, current, and fixed deposits, providing a safe place for public funds and paying interest as applicable.

45. Ms. Priya explained that 'the process by which commercial banks multiply their deposits and provide more loans than the actual reserves held.' What is this process called?
(a) Credit control
(b) Credit creation
(c) Credit rationing
(d) Margin requirement

Ans : SQP 2009

(b) Credit creation
Credit creation occurs when banks lend a portion of their deposits, creating derivative deposits in the economy, which increases the money supply.

46. Mr. Ramesh mentioned that 'the central bank holds the sole authority to issue currency notes in the country, except for small coins.' Which function of the central bank does this describe?
(a) Banker's bank
(b) Custodian of foreign exchange
(c) Monopoly of note issue
(d) Lender of the last resort

Ans : MAIN 2005

(c) Monopoly of note issue
The central bank exclusively issues currency notes, maintaining uniformity and ensuring trust in the monetary system, while small coins may be issued by the government.

47. Ms. Kavita described the central bank's role in 'managing the economy by influencing credit availability through measures like bank rate and cash reserve ratio.' What is this role of the central bank called?

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(i) It ensures uniformity in the circulation of currency, promoting consistency in the monetary system.
(ii) It enhances public trust in the currency, as the Central Bank's exclusive authority gives the currency prestige and credibility.
(iii) The government can supervise and regulate the money supply effectively through the Central Bank.
(iv) It allows the Central Bank to exercise control over the creation of credit by commercial banks.

81. Mention one difference between demand deposit and time deposit.

Ans : SQP 2017,2016,2013

(i) Demand Deposits : These are funds deposited in accounts that can be withdrawn at any time without prior notice. They offer low or no interest.
(ii) Fixed Deposits : These are deposits locked in for a fixed period and cannot be withdrawn prematurely without penalties. They offer higher interest rates compared to demand deposits.

82. Mention two differences between the Central Bank and a Commercial Bank.

Ans : MAIN 2015

Basis	**Central Bank**	**Commercial Bank**
Primary Function	Regulates and controls the banking system and monetary policy.	Accepts deposits and provides loans to the public.
Profit Motive	Operates to ensure economic stability, not for profit.	Operates with the primary goal of earning profits.

83. What is meant by Open Market Operations? How does it influence money supply?

Ans : COMP 2015

Open Market Operations involve the sale and purchase of government securities by the Central Bank in the open market. These operations are primarily conducted with the public and commercial banks to regulate money supply.

(i) Inflation Control : When inflation rises, the Central Bank sells securities to absorb excess money from the economy, reducing aggregate demand and curbing inflationary pressures.
(ii) Deflation Control : During deflation, the Central Bank buys securities to inject money into the economy, increasing liquidity and stimulating aggregate demand to combat deflation.
This mechanism ensures monetary stability by adjusting the money supply according to economic conditions.

84. Distinguish between limited legal tender and unlimited legal tender.

Ans : SQP 2014

Basis	**Limited Legal Tender**	**Unlimited Legal Tender**
Definition	Coins or currency that can be used for payment only up to a certain limit.	Currency that can be used for payment of any amount without limit.
Examples	Coins (e.g., 50 paise, ₹1, ₹2, ₹5 coins).	Currency notes (e.g., ₹10, ₹50, ₹100, ₹500, ₹2000).
Usage	Suitable for small transactions only.	Suitable for all transactions, including large payments.

85. Explain the function of the Central Bank as a Banker to the Government.

Ans : MAIN 2014

The Central Bank acts as a banker, agent, and financial advisor to the government. Its functions include:
(i) Maintaining Government Accounts : It manages the accounts of government departments and treasuries, keeping track of receipts and expenditures.
(ii) Providing Short-Term Loans : The Central Bank provides short-term interest-free loans to the government to meet temporary financial needs.
(iii) Handling Government Funds : It transfers funds between government departments and manages payments.

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(iv) Managing Securities : It buys and sells government securities, treasury bills, and bonds, supporting government borrowing.
(v) Foreign Exchange Transactions : It conducts transactions involving the sale and purchase of foreign currencies for the government.

86. How does the Central Bank act as a fiscal agent to the government?

Ans : COMP 2012

The Central Bank serves as the fiscal agent of the government by managing the Treasury Deposit Account (TDA) and accounts of central governmental agencies. It undertakes the issuance, registration, redemption, and interest payments for government bonds and treasury bills, supporting the government in managing its finances.

87. What is meant by CRR? Briefly examine its role in credit control.

Ans : SQP 2012

CRR (Cash Reserve Ratio) is the percentage of a bank's total deposits that must be kept with the Central Bank in the form of cash reserves. It is used as a tool for credit control. By increasing CRR, the Central Bank reduces the money supply, while lowering CRR increases liquidity in the economy.

88. Explain two methods of accepting deposits by commercial banks.

Ans : MAIN 2012

(i) Depositing at the Bank : Customers bring a cheque, valid ID, and account number to deposit money. They fill out a deposit slip, endorse the cheque, and hand it to the teller for deposit into their account.
(ii) Depositing through an ATM : Customers can deposit money using ATMs. They swipe their ATM or debit card, log in with a PIN, and follow on-screen instructions to complete the deposit.

89. Briefly explain two methods of advancing loans by commercial banks.

Ans : COMP 2011

(i) Overdraft : Customers with current accounts are allowed to withdraw more than their account balance. This facility is granted based on creditworthiness and is used for short-term needs.
(ii) Discounting Bills of Exchange : The bank provides funds to customers by purchasing bills of exchange before maturity. The bank collects the payment from the drawee on the due date.

90. State two ways by which the Central Bank of the country acts as a Banker's Bank.

Ans : SQP 2011

(i) Providing Loans : The Central Bank provides loans to commercial banks during emergencies.
(ii) Clearinghouse Services : It facilitates interbank settlements by acting as a clearinghouse for transactions between banks.

91. Why is the Central Bank called a 'lender of last resort' for a commercial bank?

Ans : MAIN 2011

The Central Bank provides financial assistance to commercial banks during crises by rediscounting their eligible bills. It prevents banks from financial distress through two types of loans:
(i) Direct loans or advances.
(ii) Rediscounting eligible bills and securities.

92. "Accepting deposits is a key function of commercial banks and provides benefits to both banks and depositors." Justify the statement with two suitable reasons.

Ans : COMP 2009

Accepting deposits enables commercial banks to mobilize savings from the public, which can be utilized for lending and investments, contributing to economic growth. It offers depositors safety and interest on their savings, encouraging a culture of saving. Additionally, it provides financial resources to banks, allowing them to meet the credit demands of the economy.

93. "The Central Bank's monopoly over note issuance ensures stability in the monetary system." Justify the statement with two suitable reasons.

Ans : SQP 2005

Monopoly over note issuance ensures uniformity in currency design and distribution, preventing duplication and counterfeiting. It enables the Central Bank to regulate the money supply, maintaining price stability and controlling inflation. This function also boosts public confidence in the financial system as the Central

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Bank ensures the legal tender's credibility and stability.

94. "Qualitative credit control measures by the Central Bank are essential for preventing speculative activities in the economy." Justify the statement with two suitable reasons.

Ans : MAIN 2006

Qualitative credit control measures such as margin requirements restrict loans for speculative purposes, ensuring that credit is directed toward productive uses. Moral suasion persuades banks to adopt responsible lending practices, preventing over-lending in volatile sectors. These measures help maintain economic stability and control inflationary pressures effectively.

95. "Advancing loans by commercial banks helps in economic growth and fulfills the financial needs of businesses." Justify the statement with two suitable reasons.

Ans : COMP 2007

By advancing loans, commercial banks provide businesses with the capital needed to expand operations, acquire assets, and increase production. This contributes to job creation and economic development. Additionally, loans fulfill the financial needs of individuals, such as purchasing homes or funding education, which improve living standards and promote overall growth in the economy.

96. "Demonetization helps in curbing black money and counterfeit currency while promoting transparency." Justify the statement with two suitable reasons.

Ans : SQP 2004

Demonetization reduces black money circulation by invalidating high-denomination notes, forcing unaccounted cash into formal channels. It eliminates counterfeit currency, which undermines the economy. Furthermore, it encourages digital transactions and promotes transparency in financial dealings, reducing corruption and enhancing the efficiency of the monetary system.

97. Justify the following statement with any two valid arguments:
"Commercial banks play a crucial role in mobilizing savings and facilitating investment."

Ans : MAIN 2008

(i) Commercial banks accept deposits from the public, mobilizing idle savings into productive uses.

(ii) They provide loans and advances to businesses and individuals, facilitating investments in various sectors, which helps stimulate economic growth.

98. Justify the following statement with any two valid arguments:
"The Central Bank has a monopoly over the issuance of currency in an economy."

Ans : COMP 2003

(i) The Central Bank is the sole authority to issue currency, ensuring uniformity and preventing counterfeit circulation.

(ii) It controls the money supply in the economy, maintaining price stability and public trust in the currency system.

99. Justify the following statement with any two valid arguments:
"Credit creation by commercial banks is an essential function for economic growth."

Ans : SQP 2002

(i) Credit creation increases the money supply, enabling businesses to access funds for expansion and investment.

(ii) It supports consumer spending by providing loans, boosting demand, and fostering overall economic development.

100. Justify the following statement with any two valid arguments:
"Quantitative credit control measures are more effective in controlling inflation than qualitative measures."

Ans : MAIN 2001

(i) Quantitative measures, like Open Market Operations and CRR, directly regulate the money supply in the economy.

(ii) These measures are systematic and impactful in reducing excessive liquidity, which helps control inflation effectively.

101. Justify the following statement with any two valid arguments:
"Demonetization helps curb black money and counterfeit currency in the economy."

Ans : COMP 2010

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71. Give any two points of differences between fixed and saving deposits.

Ans : COMP 2020

(i) Fixed Deposit : Money is deposited for a fixed tenure, offering higher interest rates compared to other accounts. The funds cannot be withdrawn before maturity without incurring penalties.

(ii) Saving Deposit : Meant for households and individuals, it allows deposits and limited withdrawals. It offers a nominal interest rate and provides flexibility for regular savings.

72. What is demonetization?

Ans : SQP 2020

Demonetization is the process through which the government declares specific currency notes as invalid for legal tender. This is done to curb black money, counterfeit currency, and promote a shift towards digital transactions and formal financial systems.

73. What is meant by overdraft facility offered by a commercial bank?

Ans : MAIN 2019

Overdraft is a short-term credit facility provided by commercial banks to current account holders. It allows customers to withdraw funds beyond their account balance. This facility is granted based on the customer's creditworthiness and is typically used for immediate financial needs.

74. Define bank rate.

Ans : SQP 2020, 2016

Bank rate is the rate at which the Central Bank provides loans to commercial banks. It serves as a tool for monetary policy, influencing interest rates and liquidity in the economy.

75. What are recurring deposits?

Ans : COMP 2020

Recurring deposits are a type of term deposit offered by banks, enabling individuals to deposit a fixed amount regularly into their account. These deposits help people with regular incomes to save systematically and earn interest at rates similar to fixed deposits.

76. Give one point of difference between Cash Reserve Ratio and Statutory Liquidity Ratio.

Ans : SQP 2020,2013

(i) Cash Reserve Ratio (CRR) : It refers to the percentage of a bank's Net Demand and Time Liabilities (NDTL) that must be kept with the Central Bank in the form of cash.

(ii) Statutory Liquidity Ratio (SLR) : It is the percentage of a bank's NDTL that must be maintained in liquid assets like gold, cash, or approved securities as per RBI guidelines.

77. What is meant by derivative deposits?

Ans : SQP 2020

Derivative deposits are created when commercial banks issue loans from primary deposits. When a borrower receives a loan, a portion of it is withdrawn for immediate use, while the rest is deposited back into the banking system, either in the same or a different bank. This cycle of redepositing creates derivative deposits, expanding the money supply in the economy.

78. Why is the Central Bank considered as the 'custodian of foreign reserves'?

Ans : SQP 2020

The Central Bank acts as the custodian of a country's foreign reserves, including gold and international currencies. It ensures exchange rate stability by regulating foreign exchange transactions and maintaining reserves. Through buying and selling foreign currencies, the Central Bank keeps external currency values aligned with internal values and supports government policies for a stable Balance of Payments.

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79. Give two differences between recurring deposits and fixed deposits.

Ans : MAIN 2019,2015,2011

(i) Recurring Deposits :
  (a) Depositors make monthly contributions of a fixed amount over a specified period.
  (b) Useful for individuals with regular incomes who wish to save systematically.

(ii) Fixed Deposits :
  (a) A lump sum amount is deposited for a fixed tenure, earning higher interest.
  (b) Withdrawals before maturity may incur penalties, providing less liquidity.

80. Give any two reasons for giving the monopoly right of note issue to the Central Bank.

Ans : COMP 2018

Ans : COMP 2020

The Central Bank acts as a banker to both the central and state governments. It maintains the government's current accounts to manage cash balances, payments, and receipts. It also provides loans and advances to the government and assists in issuing and managing public debt. Additionally, it acts as the government's financial advisor.

106. Explain the following functions of the Central Bank:
(i) Fiscal Agent of the Government
(ii) Advisor to the Government

Ans : SQP 2019

(i) Fiscal Agent of the Government : The Central Bank manages government accounts, oversees public debt, and assists with the issuance and redemption of government securities and bonds.
(ii) Advisor to the Government : The Central Bank provides expert advice on economic policies, monetary measures, and fiscal strategies to help the government make informed financial decisions.

107. Briefly discuss any two quantitative measures adopted by the Reserve Bank of India to control credit.

Ans : MAIN 2019, 2014

Quantitative credit control refers to the tools used by the Central Bank to regulate the overall money supply and liquidity in the economy.
(i) Bank Rate : The interest rate at which the Central Bank lends to commercial banks. An increase in the bank rate reduces credit availability, while a decrease encourages borrowing.
(ii) Open Market Operations : The buying and selling of government securities by the Central Bank. Selling securities absorbs excess liquidity, while buying securities injects money into the economy.

108. Discuss any five advantages of having a bank account.

Ans : COMP 2018

(i) Encourages the habit of saving.
(ii) Payments through cheques are safer and more convenient.
(iii) Businessmen can get their bills of exchange easily discounted.
(iv) Customers can avail of the overdraft facility for urgent financial needs.
(v) Facilitates payments like insurance premiums conveniently.
(vi) Money kept in a bank account is secure from theft or loss.
(vii) Bank transactions can serve as legal evidence in case of disputes.

109. Mention an important difference between a Commercial Bank and the Central Bank. Explain briefly three methods adopted by commercial banks to advance credit to borrowers.

Ans : SQP 2017

Difference between Commercial Bank and Central Bank : The Central Bank is the apex institution that regulates the banking system and implements monetary policies. A Commercial Bank deals directly with the public, accepting deposits and providing loans to earn profits.
Methods to Advance Credit :
(i) Overdraft Facility : Customers with current accounts are allowed to withdraw more than their account balance, based on their creditworthiness.
(ii) Cash Credit : Banks provide credit against collateral security up to a sanctioned limit, which can be drawn as needed.
(iii) Discounting Bills of Exchange : Banks provide immediate funds by purchasing bills of exchange before maturity and collecting the amount from the drawee later.

110. Name the institution which enjoys the monopoly of note issue. Explain the following functions of this institution:
(i) Banker's Bank
(ii) Banker to the Government

Ans : MAIN 2017,2012

(i) The Central Bank enjoys the monopoly of note issuance in the country, making it a critical institution for managing the economy. As the Banker's Bank, it provides loans to commercial banks to help them overcome financial crises and maintain liquidity. It also accepts surplus funds from commercial banks as deposits. The Central Bank regulates the banking system using monetary policy tools like the Repo Rate (the rate at which it lends to commercial banks) and the Reverse Repo Rate (the rate at which it accepts deposits from banks). Additionally, it controls credit

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liquidity. As a result, no interest is paid on these accounts. Savings accounts are meant for individuals to save money, and banks pay interest to encourage deposits, ensuring a balance between liquidity and long-term resource availability.

135. Ram approaches a commercial bank for a loan and is asked to provide collateral, while Shyam receives a personal loan without any collateral. Explain why banks have different requirements for different types of loans.

Ans : MAIN 2011

Collateral is required for secured loans like business or housing loans to reduce the risk for the bank in case of default. These loans are often higher in amount and longer in tenure. Personal loans, being unsecured, are granted based on the applicant's income, credit score, and repayment capacity. Banks offset the higher risk of personal loans by charging higher interest rates.

136. Ram and Shyam, both run businesses, but Shyam is refused a loan while Ram gets his loan approved. Explain how creditworthiness influences the decision-making of commercial banks in advancing loans.

Ans : COMP 2016

Creditworthiness determines a borrower's ability to repay a loan. Banks evaluate factors such as past credit history, income stability, and debt-to-income ratio. Ram likely has a strong credit score, reliable repayment history, and stable income, making him a low-risk borrower. Shyam, however, might have poor credit history or unstable financial, leading to his loan rejection.

137. Ram, a large farmer, and Shyam, a small farmer, both approach the bank for an agricultural loan. However, Shyam receives a subsidized loan while Ram does not. Explain why banks offer loans at differential rates to certain customers.

Ans : MAIN 2012

Small farmers are often eligible for subsidized loans under government schemes aimed at supporting rural development and alleviating poverty. These loans come with lower interest rates and easier repayment terms. Large farmers, who generally have better access to resources and financial stability, do not qualify for these benefits and are offered loans at standard market rates.

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138. Read the extract and answer the following questions:
Ravi wants to save his surplus earnings, so he deposits them in a bank account. The bank uses his deposits to provide loans to a local business. This process helps the business to expand and earn profits.
(i) Name the primary function of commercial banks mentioned in the extract.
(ii) Explain any four methods by which commercial banks advance loans.

Ans : COMP 2013

(i) The primary function mentioned is accepting deposits, which allows banks to collect savings from individuals and businesses, ensuring funds are available for lending and other banking activities.
(ii) Methods by which commercial banks advance loans:
  (a) Cash Credit : A loan provided to businesses against securities like inventory or receivables, where the borrower can withdraw up to a pre-approved limit.
  (b) Term Loans : Loans offered for a specific period, often used for purchasing fixed assets like machinery, vehicles, or property.
  (c) Overdraft Facility : This allows customers to withdraw more money than their account balance, usually up to a pre-approved limit.
  (d) Discounting of Bills : Banks provide funds to businesses by purchasing their bills of exchange before maturity, deducting a small discount.

139. Read the extract and answer the following questions:
Shruti is planning to take a loan to start her new bakery. She visits the bank and enquires about different types of loans, including short-term and long-term options. The bank explains the terms and conditions for each type.
(i) Identify the primary role of the bank described in the extract.
(ii) Explain any four types of loans that banks provide to their customers.

Ans : MAIN 2015

(i) The primary role described is advancing loans, which allows individuals and businesses to access funds for starting or expanding their ventures.

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The Reserve Bank of India (RBI) enjoys the monopoly of note issuance in India.

Qualitative Methods of Credit Control by RBI:

(i) Margin Requirement : This refers to the difference between the market value of a security and the loan amount offered by banks.

(i) During Inflation : The RBI increases the margin requirement to reduce credit supply, discouraging speculative borrowing.

(ii) During Deflation : The margin requirement is lowered to increase credit supply and encourage borrowing.

(ii) Moral Suasion : This involves the RBI persuading commercial banks to follow credit policies.

(i) During Inflation : Banks are advised to be selective and restrictive in lending.

(ii) During Deflation : Banks are encouraged to lend more liberally. This measure is non-binding but influences credit flow effectively.

(iii) Credit Rationing (Optional) : Under this method, the RBI imposes a limit on the maximum loans granted by banks. This ensures credit is directed to priority areas or sectors.

114. Explain two methods adopted by Commercial Banks to advance loans to the general public.

Ans : COMP 2013

Two Methods Adopted by Commercial Banks to Advance Loans to the General Public:

(i) Overdraft Facility : This method allows customers, especially those with current accounts, to withdraw more money than what is available in their account balance. The overdraft facility is granted based on the creditworthiness of the customer and is typically used for short-term financial needs. Interest is charged only on the amount overdrawn.

(ii) Discounting Bills of Exchange : Commercial banks provide funds to customers by purchasing their bills of exchange before the maturity date. The bank deducts a discount (interest) for the remaining period and provides the balance to the customer. This method is widely used by businesses to obtain immediate funds against receivables.

These methods enable commercial banks to cater to the diverse credit needs of the public while generating revenue through interest and service charges.

115. Differentiate between the following:

(i) Limited Legal Tender and Unlimited Legal Tender

(ii) Standard Money and Bank Money

Ans : SQP 2012

(i)

Aspect	**Limited Legal Tender**	**Unlimited Legal Tender**
Definition	Money that can be accepted only up to a certain maximum limit for payments.	Money that must be accepted for any amount without any upper limit.
Examples	Coins of lower denominations (e.g., 25 paise in India) are legal tender only up to a maximum of ₹25.	Currency notes and coins of higher denominations (e.g., ₹2 and above in India) are considered unlimited legal tender.
Usage	Payments exceeding the specified limit can be refused.	Payments of any amount using this tender cannot be refused.
Legal Mandate	Limited acceptance under the law.	Compulsory acceptance under the law for all payments.

(ii) Difference between Standard Money and Bank Money:

Standard Money	**Bank Money**
Standard money represents the unit by which the value of all other media is measured.	Bank money represents claims on deposits held in banks, withdrawable anytime.
Example : Rupee is the standard money of India. Every country has its own standard money.	Example : Cheques, credit cards, and drafts are forms of bank money.

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(iv) Different types of deposits provide funds to banks for lending and investments. Savings accounts encourage personal savings, fixed deposits ensure long-term funds, and current accounts allow high liquidity for businesses.

(v) A key function of banks is mobilizing savings by accepting deposits, which are then used to create credit and boost economic activity.

125. The following table shows loans provided by a commercial bank to three borrowers.

Loan Type	Borrower 1 (Rs)	Borrower 2 (Rs)	Borrower 3 (Rs)	Total Loans (Rs)
Education Loan	1,00,000	(i)	1,50,000	4,00,000
Home Loan	5,00,000	6,00,000	(ii)	16,00,000
Business Loan	10,00,000	8,00,000	7,00,000	(iii)

(i) What is the loan amount provided to Borrower 2 for Education Loan (i)?

(ii) What is the loan amount provided to Borrower 3 for Home Loan (ii)?

(iii) Calculate the total loans provided under Business Loans (iii).

(iv) Explain the significance of different types of loans provided by commercial banks.

(v) Mention any one method used by commercial banks to advance loans.

Ans : MAIN 2024

(i) The loan amount for Borrower 2 in Education Loan is Rs. 1,50,000.

(ii) The loan amount for Borrower 3 in Home Loan is Rs. 5,00,000.

(iii) The total loans under Business Loans are Rs. 25,00,000.

(iv) Loans meet diverse needs like education, housing, and business expansion, promoting personal growth and economic development.

(v) One method is Cash Credit, where banks provide businesses funds against securities with flexible withdrawal limits.

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CASE BASED QUESTION

126. By giving valid reasons, explain which of the following will be considered as the primary function of commercial banks:

(i) Accepting deposits from the public.

(ii) Investing in government securities.

Ans : MAIN 2024

(i) Accepting deposits from the public is the primary function of commercial banks as it allows banks to mobilize savings and use these funds for advancing loans. This forms the core of banking operations and enables credit creation, supporting economic growth.

(ii) Investing in government securities is a secondary function. While it helps banks ensure liquidity and earn interest, it is not essential for their existence or primary operations.

127. By giving valid reasons, explain which of the following represents a quantitative credit control measure by the Central Bank:

(i) Open Market Operations.

(ii) Moral Suasion.

Ans : COMP 2024

(i) Open Market Operations (OMO) is a quantitative credit control measure because it involves the buying and selling of government securities in the open market. This directly affects the money supply in the economy by either injecting liquidity or reducing it.

(ii) Moral Suasion is a qualitative credit control measure. It relies on persuasion and advisory guidelines issued by the Central Bank to commercial banks to regulate credit rather than altering money supply through monetary tools.

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128. By giving valid reasons, explain which of the following functions falls under the Central Bank's role as the "Lender of the Last Resort":

(i) Providing loans to commercial banks during a financial crisis.

(ii) Creating credit through derivative deposits.

Ans : SQP 2024

(i) Providing loans to commercial banks during a financial crisis is a vital role of the Central Bank as the "Lender of the Last Resort." It helps maintain liquidity in the financial system, ensuring stability and preventing a banking crisis.

121. Considering the impact of demonetization on various sectors of the economy, what steps can individuals and businesses take to adapt to changes in the monetary system and reduce dependence on cash?

Ans : SQP 2004

Demonetization highlighted the need for a shift towards a cashless economy. Individuals should adopt digital payment methods like UPI, mobile wallets, and online banking for secure and convenient transactions. Businesses must set up Point-of-Sale (POS) machines and integrate digital infrastructure to cater to cashless transactions. Proper financial record-keeping ensures compliance with tax laws and transparency in operations. Education and awareness campaigns about digital literacy can empower individuals and businesses to embrace modern financial tools. Reducing dependence on cash fosters accountability, curbs black money, and aligns with government efforts to formalize the economy.

122. In the context of heightened economic awareness, how can consumers play an active role in holding commercial banks accountable for fair practices in accepting deposits and advancing loans?

Ans : MAIN 2008

Consumers must actively engage with banks to ensure fair practices. They should demand clear explanations of deposit schemes, loan conditions, and interest rates to avoid exploitation. Comparing offers from multiple banks ensures competitive terms. Reporting grievances through official mechanisms like the Banking Ombudsman can hold banks accountable. Consumers should stay informed about their rights through financial literacy programs. By using digital banking platforms, consumers can track transactions and identify discrepancies. Active participation in monitoring bank practices not only safeguards individual interests but also promotes ethical banking standards in the financial system.

123. Given the responsibilities of the Central Bank as the custodian of foreign exchange, what measures should it implement to ensure currency stability and promote international trade?

Ans : COMP 2003

To ensure currency stability and promote international trade, the Central Bank, as the custodian of foreign exchange, should implement the following measures:

(i) Exchange Rate Management : The Central Bank should adopt suitable exchange rate policies, such as pegged, floating, or managed exchange rates, to stabilize the currency and avoid excessive volatility.

(ii) Foreign Exchange Reserves : It must maintain adequate reserves of foreign currencies to manage fluctuations in exchange rates, support imports, and meet debt obligations.

(iii) Intervention in Forex Markets : The Central Bank should actively intervene in foreign exchange markets to control drastic fluctuations by buying or selling foreign currencies as required.

(iv) Trade Facilitation : Simplify foreign exchange regulations and offer incentives to exporters to encourage international trade and enhance foreign exchange inflows.

(v) Monitoring Capital Flows : Regulate and monitor foreign capital inflows and outflows to maintain a balance between foreign investments and economic stability.

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124. The following table shows the deposit amounts (in Rs) by three customers in a commercial bank.

Account Type	Customer 1 Deposits	Customer 2 Deposits	Customer 3 Deposits	Total Deposits
Savings	5,000	(i)	7,000	20,000
Fixed	10,000	8,000	(ii)	30,000
Current	15,000	10,000	5,000	(iii)

(i) What is the deposit amount for Customer 2 in the Savings account (i)?

(ii) What is the deposit amount for Customer 3 in the Fixed account (ii)?

(iii) Calculate the total deposits for Current accounts (iii).

(iv) Based on the table, explain the importance of different types of deposits for a commercial bank.

(v) Explain any one function of commercial banks related to accepting deposits.

Ans : SQP 2002

(i) The deposit amount for Customer 2 in the Savings account is Rs. 8,000.

(ii) The deposit amount for Customer 3 in the Fixed account is Rs. 12,000.

(iii) The total deposits for Current accounts are Rs. 30,000.

116. Distinguish between qualitative and quantitative measures of credit control policy of the Central Bank.

Ans : MAIN 2011

Quantitative Measure	Qualitative Measure
These influence the total credit in the economy without distinguishing between essential and non-essential uses.	These target specific sectors, distinguishing between essential and non-essential uses of credit.
These affect lenders.	These affect both lenders and borrowers.
These are indirect and impersonal.	These are direct.
Example : Bank Rate, CRR (Cash Reserve Ratio).	Example : Margin Requirement, Rationing of Credit.

117. Write a brief note on Partial Demonetization of Indian currency in 2016.

Ans : COMP 2009

Partial demonetization was announced on 8th November 2016 by the Prime Minister of India, Narendra Modi. Rs. 500 and Rs. 1000 currency notes were demonetized, rendering them invalid for transactions. These notes could only be used until midnight of the same day. New Rs. 500 and Rs. 2000 notes were introduced, and citizens were given 50 days to exchange old notes. Daily limits on exchange and withdrawal were imposed during this period.
Demonetization aimed to curb black money, counterfeit currency, and promote digital transactions. The move received mixed reactions some praised it as a bold step toward economic reform, while others criticized it for causing inconvenience to the public.

118. In the context of the increasing role of commercial banks in economic development, what are the key responsibilities of banks in ensuring efficient credit allocation and transparency in their operations?

Ans : SQP 2005

Commercial banks are vital in mobilizing public savings and channeling these funds into productive sectors of the economy. They must ensure efficient credit allocation to industries, agriculture, infrastructure, and small businesses to promote balanced growth. Banks should prioritize financial inclusion by providing affordable loans to rural and underprivileged sections. Transparency is crucial; banks should clearly disclose interest rates, loan conditions, and deposit schemes, enabling customers to make informed decisions. Adhering to government regulations and ethical standards helps maintain trust. Moreover, by offering digital banking services, banks ensure wider access and accountability in their operations.

119. With the growing influence of the Central Bank in the economy, what are the critical roles it plays in ensuring monetary stability and supporting government policies?

Ans : MAIN 2006

The Central Bank plays a pivotal role in maintaining monetary stability by controlling inflation and ensuring price stability. It uses tools like the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), and Open Market Operations to regulate the money supply. As a government agent, it manages public debt and finances fiscal deficits by issuing government securities. The Central Bank also oversees foreign exchange reserves to stabilize currency fluctuations, ensuring smooth international trade. Acting as the lender of last resort, it provides liquidity to commercial banks during crises, preventing financial instability. Through these roles, it supports government policies and fosters economic growth.

120. In light of the increasing use of quantitative credit control measures, how can the Central Bank effectively regulate liquidity in the economy while maintaining economic growth?

Ans : COMP 2007

The Central Bank employs quantitative measures to control liquidity and balance inflation with economic growth. Open Market Operations allow the bank to sell or purchase government securities, reducing or increasing liquidity in the economy. The Bank Rate can be adjusted to influence borrowing costs; lowering the rate promotes credit availability, while increasing it reduces excess money supply. CRR and SLR adjustments regulate the reserves that banks must maintain, influencing their lending capacity. While these measures control inflation and liquidity, the Central Bank ensures that sufficient credit flows to key sectors like agriculture, infrastructure and small businesses to stimulate growth.

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(ii) Creating credit through derivative deposits is not a function of the Central Bank. This activity is performed by commercial banks as part of their credit creation process by utilizing deposits to advance loans.

129. By giving valid reasons, identify which of the following will be included in the commercial revenue of the Government:
(i) Fees charged for issuing passports.
(ii) Interest received from loans given to public sector enterprises.

Ans : MAIN 2011

(i) Fees charged for issuing passports fall under administrative revenue, as these fees are collected by the government for performing administrative functions. Such revenue is not derived from business-like operations.
(ii) Interest received from loans given to public sector enterprises is commercial revenue because it arises from economic activities where the government acts like a business entity, earning returns on investments or loans.

130. By giving valid reasons, explain which of the following is a function of the Central Bank as a "Custodian of Foreign Exchange":
(i) Managing foreign exchange reserves.
(ii) Collecting taxes on foreign trade.

Ans : SQP 2017

(i) Managing foreign exchange reserves is a key function of the Central Bank as the "Custodian of Foreign Exchange." It involves maintaining foreign currency reserves to ensure exchange rate stability, facilitate international trade, and meet foreign debt obligations.
(ii) Collecting taxes on foreign trade is not related to the Central Bank's functions. This is the responsibility of the government's revenue departments and falls under fiscal operations rather than monetary management.

131. By giving valid reasons, explain which of the following will be considered an advantage of demonetization:
(i) Reduction in counterfeit currency.
(ii) Increase in government's commercial revenues.

Ans : COMP 2014

(i) Reduction in counterfeit currency is one of the direct and immediate benefits of demonetization. By invalidating high-denomination notes, fake currency is removed from circulation, which enhances monetary security and curbs illegal activities.
(ii) Increase in government's commercial revenues is an indirect advantage of demonetization. By encouraging digital transactions and formalizing the economy, tax compliance improves, which may lead to higher revenue collection in the long term.

132. Ram deposits his savings in a fixed deposit account, while Shyam keeps his savings in a savings account. However, the interest rates they receive are different. Give reasons for commercial banks offering different interest rates for different types of deposits.

Ans : MAIN 2015

Fixed deposits offer higher interest rates as the funds are locked in for a fixed tenure, providing banks with stable resources for lending and investments. Savings accounts, on the other hand, offer lower interest because they are designed for liquidity, allowing frequent withdrawals. Banks must maintain higher reserves for savings accounts, reducing the scope for higher interest payouts.

133. Ram took an education loan to fund his studies, while Shyam took a home loan to purchase a house. However, the terms and conditions of their loans are different. Explain why commercial banks provide loans with varying conditions.

Ans : COMP 2013

Education loans have lower interest rates and flexible repayment options to support students' financial needs, often including a moratorium period. Home loans, being long-term and larger in amount, involve stricter conditions, such as regular repayment schedules, higher interest rates, and collateral requirements. This ensures the bank's security while addressing the borrower's financial capacity.

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134. Ram is a businessman and deposits large sums of money in his current account, while Shyam deposits his salary in a savings account. However, Ram does not earn any interest, while Shyam does. Give reasons for this difference in banking practices.

Ans : SQP 2016

Current accounts are tailored for businesses that require frequent transactions with no restrictions, which requires banks to maintain sufficient

creation by mandating two key ratios : the Cash Reserve Ratio (CRR), which is the percentage of deposits that banks must maintain with the Central Bank, and the Statutory Liquidity Ratio (SLR), which specifies the percentage of net demand and time liabilities to be maintained in liquid assets. These tools ensure proper supervision of commercial banks.

(ii) The Central Bank also acts as a Banker to the Government, managing cash balances, demand deposits, and time deposits for the central and state governments. It carries out exchanges, remittances, and other banking operations on the government's behalf. Furthermore, the Central Bank issues loans and advances to the government and handles the buying and selling of government securities. As an advisor, it provides expert guidance to the government on monetary policies aimed at controlling credit and ensuring financial stability. This dual role as a regulator of the banking system and the government's financial manager underscores its vital importance in the economy.

111. With reference to the Central Bank, explain the following:
(i) Monopoly of Note Issue
(ii) Lender of the Last Resort

Ans : COMP 2015

(i) Monopoly of Note Issue : The Central Bank has the exclusive authority to issue currency notes and coins in a country. All currency issued by the Central Bank is considered unlimited legal tender. No other financial institution or commercial bank has the power to issue currency. The Central Bank typically divides its functions into two departments : the Banking Department and the Issue Department. The Issue Department is responsible for printing and issuing currency to meet the needs of the economy, depending on the level of economic activity. This ensures uniformity and control over the money supply. Thus, the Central Bank is often referred to as the Bank of Issue.

(ii) Lender of the Last Resort : In times of financial emergencies, when a commercial bank is unable to meet its financial obligations, the Central Bank acts as the Lender of the Last Resort. It provides loans to commercial banks against approved securities or bills of exchange. This function ensures the smooth functioning of the banking system and prevents financial instability. By offering credit to banks during crises, the Central Bank supports liquidity in the economy and maintains confidence in the financial system.

112. Define a Commercial Bank. How do Commercial Banks mobilize deposits from the public?

Ans : SQP 2014

A Commercial Bank is a financial institution that provides various banking services, such as accepting deposits and issuing loans. These banks lend money to support trade and commerce activities and raise funds by mobilizing deposits from the public.

How Commercial Banks Mobilize Deposits : Commercial Banks mobilize deposits through the following types of accounts:

(i) Saving Deposits : These accounts are designed for individuals to save money. They combine the features of both current and fixed accounts. Deposits in savings accounts are payable on demand and can be withdrawn by cheque.

(ii) Fixed Deposits : Fixed deposits have a specified maturity period and offer higher interest rates. Depositors cannot withdraw funds before the maturity date without penalties, though banks may grant loans against the fixed deposit receipts.

(iii) Current Deposits : Current accounts (also called demand deposits) allow depositors to withdraw money at any time without restrictions. These accounts are primarily used by businesses for frequent transactions and do not earn interest.

(iv) Recurring Deposits : Recurring deposits help individuals save systematically by depositing a fixed amount every month for a specified period. These deposits earn interest at rates similar to fixed deposits, making them a popular investment tool for people with regular incomes.

113. Name the institution that enjoys the monopoly of note issue in India. Briefly explain two qualitative methods of credit control adopted by this institution.

Ans : MAIN 2013

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(ii) Types of loans provided by banks:
   (a) Personal Loans : These are unsecured loans given for personal needs like medical emergencies, travel, or weddings. They are based on the borrower's creditworthiness and income.
   (b) Home Loans : Long-term loans provided for purchasing, constructing, or renovating residential properties, often repaid over 10-20 years.
   (c) Education Loans : Loans given to students to fund their higher education, typically offering flexible repayment options after the course is completed.
   (d) Business Loans : These loans cater to entrepreneurs and businesses for purchasing equipment, expanding operations, or meeting working capital requirements.

140. Read the extract and answer the following questions:
Amit, the owner of a small business, seeks assistance from the Central Bank when his commercial bank is unable to provide him with funds during a financial crisis. The Central Bank intervenes to provide liquidity to the commercial bank.
(i) Name the role of the Central Bank highlighted in the extract.
(ii) Explain any four functions of the Central Bank in maintaining financial stability.

Ans : COMP 2017

(i) The role highlighted is Lender of the Last Resort, where the Central Bank steps in to provide emergency funds to commercial banks facing liquidity crises, ensuring financial stability.
(ii) Functions of the Central Bank:
   (a) Monopoly of Note Issue : The Central Bank is the sole authority to issue currency, ensuring controlled money supply and preventing counterfeiting.
   (b) Custodian of Foreign Exchange : It manages foreign reserves and stabilizes the exchange rate to promote international trade and investment.
   (c) Regulation of Credit : By using tools like CRR, SLR, and Bank Rate, the Central Bank controls liquidity and inflation in the economy.
   (d) Banker to the Government : It manages government accounts, oversees public debt, and finances fiscal deficits to ensure smooth functioning of the economy.

141. Read the extract and answer the following questions:
The Central Bank decides to increase the Cash Reserve Ratio (CRR) to reduce excess liquidity in the market. This impacts the ability of commercial banks to lend money, thereby controlling inflation.
(i) Identify the credit control measure described in the extract.
(ii) Explain any four quantitative credit control measures used by the Central Bank.

Ans : SQP 2019

(i) The credit control measure described is Cash Reserve Ratio (CRR), a quantitative tool that requires commercial banks to keep a percentage of their deposits with the Central Bank.
(ii) Quantitative credit control measures:
   (a) CRR : A higher CRR reduces the funds available for lending, while a lower CRR increases liquidity.
   (b) Statutory Liquidity Ratio (SLR) : Banks are required to maintain reserves in the form of cash, gold, or government securities, limiting their ability to lend.
   (c) Bank Rate Policy : By adjusting the interest rate charged to commercial banks, the Central Bank influences borrowing and lending rates in the economy.
   (d) Open Market Operations (OMO) : Buying government securities injects liquidity into the economy, while selling securities reduces money supply.

142. Read the extract and answer the following questions:
During demonetization, Megha faced difficulties using cash for her daily transactions. She started using digital payment methods such as UPI and net banking. This transition helped her adapt to the new monetary system.
(i) Identify the monetary event mentioned in the extract.
(ii) Explain any four benefits of demonetization to the economy.

Ans : MAIN 2021

(i) The monetary event mentioned is Demonetization, where high-value currency notes were withdrawn to curb black money and promote digital transactions.
(ii) Benefits of demonetization:
   (a) Reduction of Black Money : It eliminated unaccounted cash, forcing individuals to declare hidden income.

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(b) Promotion of Digital Payments : Encouraged people to adopt digital platforms like UPI, mobile wallets, and net banking, reducing reliance on cash.
(c) Curbing Counterfeit Currency : Demonetization eradicated fake currency, enhancing monetary security.
(d) Formalization of Economy : More transactions entered the formal banking system, increasing tax compliance and government revenue.

143. Read the extract and answer the following questions:
Rajiv deposits Rs. 1,00,000 in his savings account. The bank keeps a portion as reserves and lends out the remaining amount to other customers, thereby creating credit in the economy.
(i) Identify the process described in the extract.
(ii) Explain any four features of the credit creation process by commercial banks.

Ans : COMP 2000

(i) The process described is Credit Creation, where commercial banks use customer deposits to create additional credit and increase the money supply.
(ii) Features of credit creation:
(a) Deposit-Based : The process begins with primary deposits made by customers, which serve as the foundation for further lending.
(b) Fractional Reserve System : Banks keep a fraction of deposits as reserves and lend the rest to generate credit.
(c) Multiplier Effect : Every deposit leads to multiple credit cycles, significantly amplifying the money supply.
(d) Regulated by CRR : The extent of credit creation depends on the Cash Reserve Ratio set by the Central Bank. A higher CRR limits credit creation, while a lower CRR enhances it.

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CHAPTER 6

PUBLIC FINANCE

SUMMARY

1. PUBLIC FINANCE

Public Finance is a branch of economics that focuses on government activities related to taxation and expenditure. It deals with the financial operations of the government at national, state, and local levels.

Definition : According to G. Findlay Shirr as, "Public finance is the study of principles underlying the spending and raising of funds by public authorities."

2. PUBLIC REVENUE

Public revenue refers to the income generated by the government from various sources to meet public expenditures. It is broadly classified into tax revenue and non-tax revenue.

3. TAX REVENUE

Tax revenue is the compulsory payment made by individuals and firms to the government without receiving any direct benefit in return. It is collected through taxes like income tax, sales tax, excise duty, and customs duty.

4. DIRECT TAXES

The burden of tax falls directly on the individual or entity paying it. Examples : Income tax, wealth tax, corporate tax, gift tax.

Merits : Curbs inflation, reduces inequalities, is equitable, and easy to collect.

Demerits : Considered a burden, discourages savings, restrains investments, and encourages tax evasion.

5. INDIRECT TAXES

The burden of tax can be shifted from one individual to another (e.g., passed on to consumers). Examples : Value-added tax (VAT), customs duty, excise duty.

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5.1 Merits of Indirect Taxes

1. Convenient : Indirect taxes are easier for consumers to pay since they are included in the price of goods and services.
2. Easy to Collect : The government collects these taxes through businesses, simplifying the process.
3. Stable Revenue : Indirect taxes generate revenue even during economic downturns as they depend on consumption.
4. Discourages Harmful Consumption : High taxes on products like tobacco reduce their usage.
5. Difficult to Evade : Since they are included in product prices, tax evasion is harder.

5.2 Demerits of Indirect Taxes

1. Regressive Nature : They place a heavier burden on low-income groups as the tax rate is the same for everyone.
2. Lacks Civic Awareness : Consumers may not directly feel the impact of their contribution to government revenue.
3. Increases Prices : Indirect taxes make goods and services more expensive, reducing afford ability.

6. GOODS AND SERVICES TAX (GST)

GST is a unified indirect tax imposed by the government on the supply of goods and services.

6.1 OBJECTIVESO OF GST

1. Create a uniform tax structure.
2. Remove cascading effects of taxes.
3. Increase government revenue.
4. Provide online tax payment facilities.
5. Simplify tax procedures.
6. Promote ease of doing business.
7. Regulate the unorganized sector.

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Statement 2 : Public finance focuses solely on tax revenue and excludes non-tax revenue sources.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2008

(a) Statement 1 is true and Statement 2 is false.
Public finance includes the study of government revenue (both tax and non-tax), expenditure, and borrowing. It does not exclude non-tax revenue sources like fees and fines.

57. **Statement 1 :** Direct taxes are levied on individuals or organizations, and their burden cannot be shifted.
Statement 2 : Examples of direct taxes include income tax and Goods and Services Tax (GST).
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2009

(a) Statement 1 is true and Statement 2 is false.
Direct taxes, like income tax, are borne by the individual paying them. GST, however, is an indirect tax as its burden can be shifted to consumers.

58. **Statement 1 :** Indirect taxes are collected from individuals indirectly through goods and services purchased.
Statement 2 : A key advantage of indirect taxes is that they promote equality by taxing higher-income individuals more.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2010

(a) Statement 1 is true and Statement 2 is false.
Indirect taxes, like GST, are included in the price of goods and services. They do not promote equality, as they are the same for all income levels.

59. **Statement 1 :** GST is a single tax system that replaces multiple indirect taxes like VAT and service tax.
Statement 2 : GST promotes transparency and reduces tax evasion.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2011

(c) Both Statements 1 and 2 are true.
GST simplifies taxation by consolidating indirect taxes. It enhances transparency by maintaining records and reduces tax evasion through an integrated system.

60. **Statement 1 :** Progressive taxes increase the tax rate as income increases, promoting equality.
Statement 2 : Regressive taxes increase the tax rate as income decreases, making them equitable.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2012

(a) Statement 1 is true and Statement 2 is false.
Progressive taxes ensure higher earners pay more, promoting fairness. Regressive taxes disproportionately affect lower-income groups, making them inequitable.

61. **Statement 1 :** Non-tax revenue includes earnings from fees, fines, and profits of public sector enterprises.
Statement 2 : Non-tax revenue is the primary source of income for the government.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2013

(a) Statement 1 is true and Statement 2 is false.
Non-tax revenue comprises fees, fines, and public enterprise profits. However, tax revenue remains the primary income source for the government.

62. **Statement 1 :** Proportional taxes impose the same tax rate on all income groups.
Statement 2 : Proportional taxes reduce income inequality by taxing higher incomes at higher rates.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2014

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- ✓ Direct copy-paste questions
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Ans : MAIN 2021

(c) Tax Revenue
Tax revenue refers to the funds collected by the government through various taxes like income tax, sales tax, and excise duty. It is a crucial source of public revenue and contributes to government expenditures.

7. Goods and Services Tax (GST) is an example of:
(a) Direct tax
(b) Indirect tax
(c) Income tax
(d) Local tax

Ans : SQP 2019

(b) Indirect tax
Indirect taxes are those where the burden can be passed on to another party, such as consumers. GST is an example of an indirect tax levied on the sale of goods and services.

8. Revenue which is derived by the government from Railway fares is:
(a) Commercial revenue
(b) Administrative revenue
(c) Social revenue
(d) Welfare revenue

Ans : COMP 2018

(a) Commercial revenue
Revenue from railway fares is considered commercial revenue, as it is earned through the commercial operations of the railways rather than taxation or grants.

9. Which of the following is an objective of GST?
(a) Uniform tax structure
(b) Increase in revenue
(c) To simplify tax return procedures
(d) All of the above

Ans : SQP 2017

(d) All of the above
The primary objectives of GST include creating a uniform tax structure, consolidating multiple indirect taxes, increasing government revenue, and simplifying tax procedures for ease of compliance and efficiency.

10. Public finance is:
(a) Branch of economics that studies the taxing and spending activities of the government.
(b) Branch of general economics.
(c) Deals with the financial activities of the government at national, state, and local levels.
(d) All of the above.

Ans : MAIN 2016

(d) All of the above.
Public finance is a branch of economics that focuses on taxation and government expenditure. It encompasses the financial activities of governments at various levels : national, state, and local.

11. Who described public finance as 'a study of principles underlying the spending and raising of funds by public authorities'?
(a) G. Findlay Shirras
(b) Alfred Marshall
(c) Warren Buffett
(d) John Maynard Keynes

Ans : COMP 2015

(a) G. Findlay Shirras
G. Findlay Shirras defined public finance as the study of the principles governing how public authorities raise and spend funds.

12. The income of the government through all sources is known as :
(a) Public finance
(b) Public revenue
(c) Direct taxes
(d) Indirect taxes

Ans : SQP 2014

(b) Public revenue
Public revenue refers to the income that the government generates from various sources. This includes taxes, profits from public enterprises, and revenue from administrative services.

13. Which of the below are sources of public revenue?
(a) Tax revenue
(b) Non-tax revenue
(c) Both (a) and (b)
(d) None of the above

Ans : MAIN 2013

(c) Both (a) and (b)
The two main sources of public revenue are tax revenue (such as income tax and GST) and non-tax revenue (such as fees, fines, and profits from government-owned enterprises).

14. Which of the below is an example of direct tax?
(a) Wealth tax
(b) Customs duty
(c) Service tax
(d) Excise duty

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Ans : COMP 2012

(a) Wealth tax
A direct tax is one where the tax burden cannot be shifted to others. Wealth tax is a direct tax as it is directly paid by individuals.

15. Identify the example of indirect tax:
(a) Value-added tax
(b) Income tax
(c) Gift tax
(d) Corporation tax

Ans : MAIN 2010

(a) Value-added tax
Value-added tax (VAT) is an indirect tax levied at each stage of production or distribution and is ultimately passed on to the consumer.

16. Non-tax revenues are :
(a) Income of the government through various taxes.
(b) Income of the government from sources other than taxes.
(c) Income of government from the sale of goods and services.
(d) None of the above.

Ans : COMP 2009

(b) Income of the government from sources other than taxes.
Non-tax revenues include income generated by the government from sources other than taxes, such as fees, fines, dividends, and profits from public enterprises.

17. Which of the following is true about GST?
(a) It is a direct tax.
(b) It is an indirect tax.
(c) It is levied by the government on the supply of goods and services.
(d) Both (b) and (c).

Ans : SQP 2008

(d) Both (b) and (c).
GST (Goods and Services Tax) is an indirect tax levied on the supply of goods and services. It simplifies taxation by consolidating multiple taxes into one.

18. Identify the definition of progressive tax:
(a) Taxes in which the rate of tax increases.
(b) Taxes in which the rate of tax decreases.
(c) Taxes in which the tax rate is constant.
(d) None of the above.

Ans : MAIN 2007

(a) Taxes in which the rate of tax increases.
A progressive tax is a system where the tax rate increases as the taxpayer's income increases, ensuring fairness and equity.

19. Which of the following statements is true about regressive tax?
(a) Taxes where the tax rate decreases.
(b) Taxes where tax rate increases.
(c) Taxes where the tax rate decreases with an increase in income of an individual.
(d) Taxes where tax rate increases with an increase in income of an individual.

Ans : COMP 2006

(c) Taxes where the tax rate decreases with an increase in income of an individual.
A regressive tax is one where the average tax rate decreases as income increases, placing a heavier burden on low-income groups.

20. Direct tax _____ inequalities:
(a) Increases
(b) Reduces
(c) Does not affect
(d) None of the above.

Ans : SQP 2005

(b) Reduces
Direct taxes help reduce inequalities by taxing higher-income groups at higher rates, redistributing wealth in the economy.

21. **Assertion (A) :** Direct taxes are imposed directly on individuals or organizations and cannot be shifted to others.
Reason (R) : Direct taxes are equitable because they are based on the taxpayer's ability to pay.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2004

(a) Both A and R are true, and R is the correct explanation of A.
Direct taxes are paid directly by the taxpayer and are equitable, as they take into account the taxpayer's income and ability to pay.

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22. **Assertion (A) :** Indirect taxes are regressive in nature because they are levied uniformly on goods and services.
Reason (R) : Indirect taxes burden lower-income groups more as they spend a larger portion of their income on taxed goods.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2003

(a) Both A and R are true, and R is the correct explanation of A.
Indirect taxes, being the same for all consumers regardless of income, disproportionately affect lower-income groups, making them regressive in nature.

23. **Assertion (A) :** Goods and Services Tax (GST) aims to create a unified market by replacing multiple indirect taxes.
Reason (R) : GST simplifies the tax structure, reducing the cascading effect of taxes on goods and services.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2001

(a) Both A and R are true, and R is the correct explanation of A.
GST unifies the tax system across states and sectors, removing multiple indirect taxes and eliminating the cascading tax effect, thus achieving its objective.

24. **Assertion (A) :** Progressive taxes are more equitable because they increase with the taxpayer's income.
Reason (R) : Progressive taxes reduce income inequality by imposing a higher burden on higher-income groups.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2000

(a) Both A and R are true, and R is the correct explanation of A.
Progressive taxes follow the principle of ability to pay, with higher tax rates for higher-income groups, helping reduce income disparities and ensuring equity.

25. **Assertion (A) :** Non-tax revenue includes earnings from sources like interest on loans and dividends from public enterprises.
Reason (R) : Non-tax revenue does not involve imposing a financial burden on citizens through taxes.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2024

(a) Both A and R are true, and R is the correct explanation of A.
Non-tax revenue comes from sources like fees, interest, and dividends, and it does not involve taxing citizens, making it a distinct source of public revenue.

26. Study the relationship in the first pair of terms and complete the second pair.
(i) Direct Tax : Paid directly by individuals or businesses.
(ii) Indirect Tax : _____.
(a) Paid by consumers directly
(b) Paid through intermediaries
(c) Fixed amount taxes
(d) Non-recoverable by taxpayers

Ans : COMP 2023

(b) Paid through intermediaries
Indirect taxes, such as GST, are levied on goods and services, and consumers pay them indirectly through sellers, who pass on the tax to the government.

27. Study the relationship in the first pair of terms and complete the second pair.
(i) Direct Tax : Progressive in nature.
(ii) Indirect Tax : _____.
(a) Regressive in nature
(b) Progressive in nature
(c) Proportional in nature
(d) Fixed for everyone

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42. A tax system where all individuals pay the same percentage of their income, regardless of earnings, is an example of which type of tax?"
(a) Progressive Tax.
(b) Proportional Tax.
(c) Regressive Tax.
(d) Digressive Tax.

Ans : SQP 2007

(b) Proportional Tax.
Proportional taxes maintain a fixed tax rate across all income levels, ensuring that everyone pays the same percentage, regardless of their earnings.

43. Which of the following taxes places a heavier burden on low-income groups compared to high-income groups?"
(a) Progressive Tax.
(b) Regressive Tax.
(c) Proportional Tax.
(d) Digressive Tax.

Ans : COMP 2006

(b) Regressive Tax.
Regressive taxes impose a higher relative burden on low-income earners as the tax constitutes a larger percentage of their income, reducing equity in taxation.

44. What is the primary objective of implementing Goods and Services Tax (GST)?"
(a) Increase tax collection from direct taxes.
(b) Unify indirect taxes across the country.
(c) Reduce the tax burden on exports.
(d) Increase non-tax revenue.

Ans : MAIN 2005

(b) Unify indirect taxes across the country.
GST aims to simplify and unify the indirect tax structure, replacing multiple state and central taxes with a single tax system, promoting ease of doing business.

45. Fees charged for issuing passports and penalties imposed for violations are examples of what type of government revenue?"
(a) Direct Tax.
(b) Indirect Tax.
(c) Tax Revenue.
(d) Non-tax Revenue.

Ans : SQP 2004

(d) Non-tax Revenue.
Non-tax revenue includes income from government services, such as passport fees and penalties, which contribute to the government's earnings without being classified as taxes.

46. Mr. Ramesh explained a type of tax 'that is included in the price of goods and services and paid indirectly by consumers when they make a purchase.' What is this type of tax called?
(a) Direct tax
(b) Indirect tax
(c) Goods and Services Tax (GST)
(d) Proportional tax

Ans : COMP 2003

(b) Indirect tax
Indirect taxes are paid indirectly by consumers when they purchase goods or services. The seller collects the tax and remits it to the government, such as in GST or excise duties.

47. Ms. Priya described a tax system where 'all individuals, regardless of their income, pay the same percentage of their earnings as tax.' What is this type of tax system called?
(a) Regressive tax
(b) Proportional tax
(c) Progressive tax
(d) Digressive tax

Ans : MAIN 2001

(b) Proportional tax
A proportional tax system applies a uniform tax rate to all income levels, ensuring that everyone pays the same percentage, regardless of their earnings.

48. Mr. Arvind discussed the objective of GST as 'creating a unified tax system in India to eliminate the cascading effect of multiple indirect taxes.' What is the primary purpose of GST?
(a) To increase government revenue
(b) To unify the tax system and remove tax-on-tax effects
(c) To simplify direct taxation
(d) To reduce tax evasion

Ans : COMP 2000

(b) To unify the tax system and remove tax-on-tax effects
GST was introduced to unify various indirect taxes, reducing the cascading effect of tax-on-tax and promoting ease of doing business.

49. Ms. Rekha explained 'a type of tax that takes a larger percentage of income from lower-income groups than higher-income groups.' What is this taxation system called?

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Ans : SQP 2015

(b) Multiple overlapping taxes
Before GST, the tax system in India included multiple indirect taxes like VAT, excise duty, and service tax, creating complexities and overlapping tax burdens.

35. Study the relationship in the first pair of terms and complete the second pair.
(i) Direct Tax : Burden cannot be shifted.
(ii) Indirect Tax : _____.
(a) Burden is shared by taxpayers
(b) Burden can be shifted to consumers
(c) Collected from producers only
(d) Non-recoverable by the government

Ans : COMP 2014

(b) Burden can be shifted to consumers
In indirect taxes, the tax burden is shifted from producers or sellers to consumers, as the tax is included in the price of goods or services.

36. "Taxes that are directly paid by individuals or entities to the government are categorized under which type of tax?"
(a) Indirect Tax.
(b) Goods and Services Tax (GST).
(c) Direct Tax.
(d) Regressive Tax.

Ans : SQP 2013

(c) Direct Tax.
Direct taxes, such as income tax, are paid directly to the government by individuals or organizations, based on their income or profits, ensuring a fair collection system.

37. Which of the following taxes is levied on the sale of goods and services and is collected by businesses on behalf of the government?"
(a) Direct Tax.
(b) Progressive Tax.
(c) Goods and Services Tax (GST).
(d) Non-tax Revenue.

Ans : COMP 2012

(c) Goods and Services Tax (GST).
GST is an indirect tax applied to the supply of goods and services, aimed at unifying the tax structure across the country, reducing cascading taxes, and simplifying compliance.

38. Revenue earned by the government from sources other than taxes, such as fees, fines, and grants, is known as what?"
(a) Tax Revenue.
(b) Direct Tax.
(c) Non-tax Revenue.
(d) Regressive Tax.

Ans : MAIN 2011

(c) Non-tax Revenue.
Non-tax revenue includes income from fees, fines, dividends from public enterprises, and grants. It is a significant source of government revenue besides taxes.

39. Which type of tax takes a larger percentage of income from higher earners and a smaller percentage from lower earners?"
(a) Regressive Tax.
(b) Progressive Tax.
(c) Proportional Tax.
(d) Digressive Tax.

Ans : SQP 2010

(b) Progressive Tax.
Progressive taxes increase with income, imposing a greater burden on high earners while providing relief to lower earners, promoting income equity.

40. Income tax is an example of which type of tax?"
(a) Indirect Tax.
(b) Progressive Tax.
(c) Regressive Tax.
(d) Non-tax Revenue.

Ans : COMP 2009

(b) Progressive Tax.
Income tax is a progressive tax because the rate increases with the income level, ensuring that individuals with higher earnings contribute a larger proportion of their income.

41. Which of the following is an advantage of indirect taxes?"
(a) They promote equality in taxation.
(b) They are difficult to evade.
(c) They impose higher burdens on lower-income groups.
(d) They are levied directly on income.

Ans : MAIN 2008

(b) They are difficult to evade.
Indirect taxes, such as GST, are collected at the point of sale and included in the price of goods or services, making them harder to evade compared to direct taxes.

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Ans : MAIN 2022

(a) Regressive in nature
Indirect taxes are regressive because they impose a higher relative burden on lower-income individuals, as everyone pays the same tax rate regardless of their income.

28. Study the relationship in the first pair of terms and complete the second pair.
(i) Tax Revenue : Includes GST.
(ii) Non-Tax Revenue : _____.
(a) Comprises only fines
(b) Includes income from fees and licenses
(c) Includes tax on exports
(d) Consists of progressive taxes

Ans : SQP 2021

(b) Includes income from fees and licenses
Non-tax revenue consists of government earnings from sources like fees, licenses, dividends, and fines, which do not involve taxation.

29. Study the relationship in the first pair of terms and complete the second pair.
(i) Progressive Tax : Higher rate for higher income.
(ii) Regressive Tax : _____.
(a) Higher rate for lower income
(b) Uniform rate for all incomes
(c) Higher rate for middle-income groups
(d) Inversely proportional to income

Ans : COMP 2020

(d) Inversely proportional to income
Regressive taxes impose a relatively greater burden on lower-income earners, as the effective tax rate decreases as income increases.

30. Study the relationship in the first pair of terms and complete the second pair.
(i) Goods and Services Tax (GST) : Simplifies tax structure.
(ii) Direct Tax : _____.
(a) Encourages tax evasion
(b) Reduces inequality in income
(c) Applied only to goods
(d) Same for all income levels

Ans : MAIN 2019

(b) Reduces inequality in income
Direct taxes are progressive, imposing higher rates on higher income groups, which helps reduce income inequality by redistributing wealth.

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31. Study the relationship in the first pair of terms and complete the second pair.
(i) Direct Tax : Imposed on income and wealth.
(ii) Indirect Tax : _____.
(a) Imposed on income directly
(b) Levied on goods and services
(c) Collected from property owners
(d) Based on profit margins

Ans : COMP 2018

(b) Levied on goods and services
Indirect taxes, like GST, are charged on goods and services rather than income or wealth, making them a consumption-based tax.

32. Study the relationship in the first pair of terms and complete the second pair.
(i) Progressive Tax : Based on ability to pay.
(ii) Digressive Tax : _____.
(a) Declining tax rate with rising income
(b) Fixed rate for all income groups
(c) Partially progressive
(d) Fully regressive

Ans : SQP 2017

(c) Partially progressive
Digressive taxes are progressive up to a certain income level but become flat or constant beyond that, partially reducing the burden on higher income groups.

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33. Study the relationship in the first pair of terms and complete the second pair.
(i) Tax Revenue : Includes income tax.
(ii) Non-Tax Revenue : _____.
(a) Includes taxes on goods and services
(b) Comprises profits from public enterprises
(c) Depends solely on trade duties
(d) Includes customs revenue

Ans : MAIN 2016

(b) Comprises profits from public enterprises
Non-tax revenue includes government earnings from dividends, profits from public enterprises, fines, fees, and grants, excluding tax collections.

34. Study the relationship in the first pair of terms and complete the second pair.
(i) GST : Single unified tax system.
(ii) Indirect Taxes (Before GST) : _____.
(a) Unified tax system
(b) Multiple overlapping taxes
(c) Tax applied only at the state level
(d) Tax rates were progressive

(a) Regressive tax
(b) Proportional tax
(c) Progressive tax
(d) Digressive tax

Ans : SQP 2001

(a) Regressive tax
A regressive tax system imposes a greater burden on lower-income individuals since the tax rate decreases as income increases, as seen with indirect taxes on necessities.

50. Mr. Suresh explained that 'the government earns revenue through sources other than taxes, such as profits from public sector undertakings, fines, and fees.' What is this type of revenue called?
(a) Direct revenue
(b) Non-tax revenue
(c) Indirect revenue
(d) Capital revenue

Ans : MAIN 2002

(b) Non-tax revenue
Non-tax revenue includes income from fines, fees, dividends, and interest on loans, providing the government with funds without imposing taxes on the public.

51. Mr. Sharma explained the term 'Public Finance' as the branch of economics that deals with the revenue, expenditure, and debt management of the government. What does public finance primarily focus on?
(a) Private sector budgeting
(b) Management of household income
(c) Government financial activities
(d) Business financial operations

Ans : COMP 2003

(c) Government financial activities
Public finance focuses on government financial operations, including revenue collection, public expenditure, and debt management, to achieve economic stability and growth.

52. Ms. Priya explained a type of tax 'where the burden of tax cannot be shifted to another person and is paid directly by the individual or entity.' What is this type of tax called?
(a) Indirect tax
(b) Direct tax
(c) Goods and Services Tax (GST)
(d) Proportional tax

Ans : SQP 2004

(b) Direct tax
Direct taxes are paid directly by individuals or entities on income or wealth, such as income tax or property tax, without transferring the burden to others.

53. Mr. Suresh discussed 'a unified tax system that replaces multiple indirect taxes like VAT, excise duty, and service tax, aiming to simplify the tax structure in India.' What is this tax called?
(a) Income tax
(b) Goods and Services Tax (GST)
(c) Custom duty
(d) Corporate tax

Ans : MAIN 2005

(b) Goods and Services Tax (GST)
GST is a comprehensive indirect tax that replaced multiple indirect taxes, streamlining the tax system and promoting a unified market in India.

54. Ms. Rekha described a tax system 'where the tax rate increases with an increase in income, ensuring higher contributions from the wealthy.' What is this type of taxation called?
(a) Proportional tax
(b) Regressive tax
(c) Progressive tax
(d) Digressive tax

Ans : COMP 2006

(c) Progressive tax
In progressive taxation, higher-income groups pay a higher tax rate, making it a fair system to reduce income inequality and promote equity.

55. Mr. Arvind explained 'revenue earned by the government through means other than taxation, such as interest on loans, fines, and fees.' What is this source of revenue called?
(a) Tax revenue
(b) Non-tax revenue
(c) Direct tax revenue
(d) Indirect tax revenue

Ans : SQP 2007

(b) Non-tax revenue
Non-tax revenue refers to income earned by the government from sources like interest, fees, fines, and dividends, without imposing taxes on the public.

56. **Statement 1 :** Public finance refers to the study of income, expenditure, and debt of the government.

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7. TYPES OF TAXATION SYSTEMS

1. Progressive Tax : Higher income groups pay a larger proportion of tax, ensuring equity.
2. Proportional Tax : A fixed percentage of income is taxed, irrespective of income levels.
3. Regressive Tax : Lower-income groups bear a heavier tax burden as the rate decreases with higher income.
4. Digressive Tax : A mix of proportional and regressive taxes, where the rate is higher up to a certain limit and then becomes fixed.

8. NON-TAX REVENUE

Non-tax revenue refers to the income earned by the government from sources other than taxes.
Examples :
1. Fees and fines.
2. Dividends from public sector enterprises.
3. Interest on loans provided by the government.
4. Profits from government undertakings.

MULTIPLE CHOICE QUESTION

1. Mr. Rao needs to pay license fee to the government to start his electric vehicle shop and some documents to meet the safety norms.
The revenue earned by the government from this process will be called as ..... revenue.
(a) Commercial
(b) Central
(c) GST
(d) Administrative

Ans : MAIN 2024

(d) Administrative
Administrative revenue refers to the income earned by a government through administrative activities conducted by its various bodies at local, regional, or national levels. This revenue includes taxes, fees, fines, permits, licenses, and other charges associated with administrative services offered by the government.

2. If the rate of tax falls with an increase in income, it is called as:
(a) Regressive
(b) Progressive
(c) Digressive
(d) Proportional

Ans : MAIN 2024

(a) Regressive
A regressive tax imposes a higher percentage of the tax burden on low-income individuals compared to high-income earners. As income increases, the proportion of tax paid decreases. This system tends to disproportionately affect those with lower incomes, making it relatively harder for them to manage the tax compared to individuals with higher earnings.

3. Toll tax is an example of ..... revenue of the government.
(a) Administrative
(b) Commercial
(c) Fee
(d) Direct

Ans : SQP 2023

(c) Fee
Toll tax is a type of administrative revenue collected from vehicles using roads as maintenance fees.

4. The study about the revenue and expenditure operations of the government is also known as ..... .
(a) Public revenue
(b) Public expenditure
(c) Public debt
(d) Public finance

Ans : SQP 2023

(d) Public finance
The study of public finance focuses on the government's revenue and expenditure through tools like taxation and subsidies.

5. Which of the following is a type of tax?
(a) Public tax
(b) Direct tax
(c) Indirect tax
(d) Both (b) and (c)

Ans : COMP 2022

(d) Both (b) and (c)
Taxes are categorized into two main types : Direct taxes, where the burden falls directly on the taxpayer, and Indirect taxes, where the tax burden can be shifted to others (e.g., consumers).

6. Fund raised through various taxes is called:
(a) Public Revenue
(b) Non-tax Revenue
(c) Tax Revenue
(d) None of these

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(a) Statement 1 is true and Statement 2 is false.
Proportional taxes apply the same rate to all incomes, which does not reduce income inequality. Higher incomes are taxed the same as lower incomes.

63. **Statement 1 :** Digressive taxes increase the tax rate as income increases but at a decreasing rate.
Statement 2 : Digressive taxes are equitable as they impose lower rates on higher incomes.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2015

(a) Statement 1 is true and Statement 2 is false.
Digressive taxes increase with income but at diminishing rates, which may not ensure equity as the wealthy benefit from lower marginal rates.

64. **Statement 1 :** A merit of direct taxes is that they promote equality by taxing higher incomes more.
Statement 2 : A demerit of direct taxes is that they discourage savings and investments.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2016

(c) Both Statements 1 and 2 are true.
Direct taxes promote equality by taxing higher incomes progressively but may discourage savings and investments due to higher tax burdens.

65. **Statement 1 :** Goods and Services Tax (GST) is levied on the final consumer and eliminates cascading taxes.
Statement 2 : GST has multiple tax rates depending on the type of goods or services.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2017

(c) Both Statements 1 and 2 are true.
GST eliminates tax-on-tax issues and is charged on the end consumer. It has multiple slabs, like 5%, 12%, and 18%, based on the nature of goods or services.

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66. "Public finance refers to the management of a country's revenue, expenditures, and debt by the government." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2018/

(i) True
Public finance involves planning and managing government funds to ensure economic stability and growth.

67. "Direct taxes are collected by the government from individuals and entities directly." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2019

(i) True
Direct taxes, like income tax, are paid directly to the government by individuals and entities based on their income or wealth.

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68. "Indirect taxes, like GST, are levied directly on an individual's income." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2020

(ii) False
Indirect taxes are imposed on goods and services and are paid indirectly by consumers when they purchase products.

69. "A progressive tax system charges a higher percentage of income as income increases." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2021

(i) True
A progressive tax system ensures that individuals with higher incomes pay a greater proportion of their earnings in taxes.

70. "Goods and Services Tax (GST) is an indirect tax aimed at creating a unified national market." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2022

FIVE MARKS QUESTIONS

125. Give any five points of differences between direct and indirect tax.

Ans : SQP 2024

Aspect	Direct Tax	Indirect Tax
Definition	Tax levied directly on individuals or entities based on their income or wealth.	Tax levied on goods and services at the point of sale or consumption.
Incidence	Incidence falls directly on the taxpayer, who bears the burden of the tax.	Incidence is passed on to the consumer in the form of higher prices.
Collection	Collected directly from the taxpayer by tax authorities.	Collected indirectly from consumers by sellers or service providers.
Equity	Generally considered more equitable as it is based on the ability to pay.	May be regressive, as it disproportionately affects lower-income individuals.
Examples	Income tax, corporate tax, wealth tax.	Value Added Tax (VAT), excise duty, customs duty.

126. What are proportional taxes?

Ans : MAIN 2024

A Proportional tax, also referred to as a flat tax, is a taxation system where the tax rate remains constant, irrespective of the taxable base amount. This implies that the tax paid increases or decreases directly in proportion to the taxable amount. In other words, all individuals pay the same percentage of their income or wealth as tax, regardless of their income or wealth levels.

127. (i) What is meant by GST?
(ii) Give any four objectives of GST.

Ans : SQP 2020

(i) Definition of GST : GST (Goods and Services Tax) is an indirect tax levied by the government on the supply of goods and services. It aims to simplify the tax structure by consolidating multiple indirect taxes.

(ii) Objectives of GST:

(a) Eliminating the Cascading Effect : GST addresses the cascading effect of indirect taxes by ensuring tax is levied only on the value-added portion of goods and services, removing tax on tax.

(b) Subsume Indirect Taxes : GST consolidates major indirect taxes at both central and state levels, ensuring a unified system and reducing complexity.

(c) Reduce Tax Evasion and Corruption : By implementing mechanisms like input tax credit, GST ensures tax is deposited by registered suppliers, reducing fraud and corruption.

(d) Increase Productivity : GST improves productivity by removing entry taxes on goods, reducing logistical delays, and eliminating check posts at state borders.

(e) Uniform Tax Structure : GST promotes the "One Nation, One Tax" policy, creating a neutral and consistent tax system across states.

128. State and explain any three merits and two demerits of indirect taxes.

Ans : COMP 2020,2018

(i) Merits of Indirect Taxes

(a) Convenience : Indirect taxes are convenient as they are paid by consumers at the time of purchase. This reduces the administrative burden on the government. Additionally, they are collected directly at the point of sale, saving time and effort.

(b) Ease of Collection : Compared to direct taxes, indirect taxes are easier to collect. As they are integrated into the price of goods or services, the authorities do not need to worry about complex collection mechanisms.

(c) Difficult to Evade : Indirect taxes are part of the price of goods and services, making it almost impossible to evade. Anyone purchasing a taxed item automatically contributes to the government revenue.

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possess more contribute proportionately higher taxes. Examples include income tax and wealth tax.

80. Mention the two sources of revenue for the government.

Ans : MAIN 2020,2018

The government generates revenue from two primary sources:

(i) Tax Revenue : Tax revenue refers to the funds collected by the government through various taxes. Taxes are mandatory contributions imposed on individuals and organizations to finance the government's activities for the public good. Tax revenue is classified into:

(a) Direct Taxes : Taxes paid directly by individuals or businesses (e.g., income tax, corporate tax).

(b) Indirect Taxes : Taxes levied on goods and services, where the burden can be shifted (e.g., GST, customs duty).

(ii) Non-Tax Revenue : Non-tax revenue includes income earned by the government from sources other than taxes. This includes administrative revenues such as fees, fines, and penalties, as well as commercial revenues from public enterprises and investments. These funds supplement tax revenue to meet the government's financial needs.

81. What is meant by proportional tax?

Ans : SQP 2020

A proportional tax is a tax system where the tax rate remains constant, regardless of the taxpayer's income level. All individuals pay the same percentage of their income as tax, ensuring equal proportional contribution across all income groups.

82. What does public finance mean?

Ans : COMP 2020

Public finance is a branch of economics that examines the taxation and expenditure activities of the government. It focuses on the financial operations of the government at national, state, and local levels, analyzing how resources are allocated and utilized to meet public needs and achieve economic stability.

83. Mention any two objectives of Goods & Services Tax (GST).

Ans : MAIN 2020

(i) To create a uniform tax structure across the country by replacing multiple indirect taxes.

(ii) To simplify the tax system, making it easier for taxpayers to comply with and reducing procedural complexities.

84. Why is direct tax unpopular among taxpayers?

Ans : SQP 2020

Direct taxes are unpopular because their burden is directly felt by the taxpayer. Since individuals are responsible for paying these taxes, they are often disliked. The payment of direct taxes involves large sums and may require disclosing personal information, making them cumbersome. Additionally, direct taxes cannot be transferred, which means the tax burden is borne solely by the individual. This perceived inequality in tax liability, where one person may earn without labor while another works hard to pay the same rate, contributes to their unpopularity.

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85. Briefly explain any two merits of direct taxes.

Ans : COMP 2019

1. Curbs Inflation : During monetary inflation, the government can increase direct tax rates to reduce the demand for goods and services. By lowering consumer spending, inflationary pressures are controlled.
2. Equitable : Direct taxes are based on the principle of equity. Individuals with higher incomes pay more taxes, while those with lower incomes pay less, ensuring fairness.
3. Reduces Inequalities : Revenue collected through higher taxes on the wealthy is used for programs benefiting lower-income groups. This helps bridge the gap between the rich and the poor by improving living standards for disadvantaged sections.
4. Progressive Tax : Direct taxes adhere to the principle of "ability to pay." Tax rates increase with income, ensuring that wealthier individuals contribute more compared to those with limited financial means.
5. Ease of Collection : Direct taxes are simpler to collect compared to indirect taxes, as taxpayers make their payments directly to the government.
6. Certainty : Taxpayers know in advance how much they owe since direct tax rates are predetermined, leading to a clear and predictable taxation process.

(i) True
GST replaces multiple indirect taxes to simplify the tax system and foster a unified market across the country.

71. "Digressive taxes impose higher rates on lower income brackets and lower rates on higher income brackets." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2023

(ii) False
Digressive taxes combine elements of proportional and regressive taxation but still impose higher rates on higher income brackets.

72. "Indirect taxes are regressive because they impose the same rate on all consumers, regardless of income level." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2024

(i) True
Indirect taxes, like GST, affect lower-income groups more because they constitute a higher proportion of their expenditure.

73. "Direct taxes promote equity, as they are based on an individual's ability to pay." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2001

(i) True
Direct taxes, such as income tax, ensure fairness by taxing individuals according to their income levels.

74. "Non-tax revenue includes income from public enterprises, fees, fines, and interest on loans given by the government." Select the appropriate option:
(i) True
(ii) False

Ans : COMP 2002

(i) True
Non-tax revenue refers to income earned by the government from sources other than taxation, such as dividends, interest, and fees.

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75. "Fees charged by the government for issuing driving licenses are considered non-tax revenue." Select the appropriate option:
(i) True
(ii) False

Ans : MAIN 2003

(i) True
Fees are a type of non-tax revenue as they are collected for specific services provided by the government.

76. "A direct tax burden cannot be shifted, while the burden of an indirect tax can be passed on to others." Select the appropriate option:
(i) True
(ii) False

Ans : SQP 2004

(i) True
Direct taxes, like income tax, are borne by the taxpayer, whereas indirect taxes, like GST, can be transferred to consumers.

TWO MARKS QUESTIONS

77. Define the term public finance.

Ans : MAIN 2024

Public finance is the study of how governments generate and utilize funds to support public expenditures and achieve economic and social objectives. It involves evaluating government budgets, taxation policies, public debt management, and the distribution of resources to sectors like education, healthcare, infrastructure, and defense. The ultimate aim is to promote economic stability, growth and public welfare.

78. Mention any two objectives of GST.

Ans : COMP 2023

The primary objectives of GST are:
(i) To eliminate multiple indirect taxes.
(ii) To reduce tax evasion and fraud.

79. Define progressive tax.

Ans : SQP 2023

Progressive taxation involves imposing higher tax rates on individuals or entities with higher income or wealth. This ensures that those who earn or

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93. Progressive taxation is suitable for the Indian economy. Give a reason to support your answer.

Ans : SQP 2014

Progressive taxation is ideal for India as it is based on an individual's ability to pay. Wealthier individuals are taxed at a higher rate, contributing more to public revenue. This system reduces income disparities and helps achieve a more equitable distribution of resources.

94. Distinguish between a tax and a fee

Ans : COMP 2014,2011

Tax	Fee
A tax is a compulsory contribution imposed by the government on its citizens without direct benefits.	A fee is a payment made by individuals for special services provided by the government or private entities.
It is unilateral in nature.	It is bilateral in nature.
Examples : Income tax, house tax, etc.	Examples : Doctor's fees, school fees, etc.

95. State two differences between tax on income and tax on a commodity.

Ans : MAIN 2014]

Tax on Income	Tax on Commodity
It is a direct tax.	It is an indirect tax.
The burden cannot be shifted.	The burden can be shifted.
It is progressive in nature.	It is regressive in nature.
Impact and incidence fall on the same person.	Impact and incidence fall on different individuals.

96. State two examples of direct tax imposed by the central government in India.

Ans : SQP 2012

(i) Income Tax : This is a tax imposed on an individual's earnings, such as salaries, wages, or profits from investments.

(ii) Wealth Tax : This tax is imposed on the net wealth of an individual, including property and other assets.

97. How does proportional tax differ from progressive tax?

Ans : COMP 2012

The differences between Proportional Tax and Progressive Tax are:

Proportional Tax	Progressive Tax
The tax rate remains constant, regardless of the tax base.	The tax rate increases as the tax base (income) increases.
It is inequitable as it places a heavier burden on poor incomes.	It is equitable as higher incomes are taxed at a higher rate.

98. Mention any two sources of non-tax revenue of the Central Government in India.

Ans : MAIN 2011

(i) Interest Receipts : The largest source of non-tax revenue for the Central Government is interest income. This is earned from loans advanced to state governments, financial institutions, and industrial enterprises in the public sector.

(ii) Railways : The Indian railways, owned and managed by the government, contribute to non-tax revenue through the payment of a fixed dividend on the capital invested in railways.

99. What is meant by progressive tax? Give an example.

Ans : SQP 2011

A progressive tax is a tax system where the tax rate increases as the taxpayer's income increases. This ensures that individuals with higher incomes contribute a larger portion of their earnings compared to those with lower incomes.
Example : Income tax, where tax rates rise with higher income brackets.

100. What are the demerits of indirect tax?

Ans : COMP 2012

(i) Regressive Nature : Indirect taxes are regressive as they impose a higher burden on low-income groups compared to the rich. Both rich and poor pay the same tax rate on goods and services, irrespective of their ability to pay.

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(ii) Lack of Social Consciousness : Indirect taxes do not create a sense of awareness among taxpayers because the burden of the tax is not directly felt, reducing civic responsibility.
(iii) Inflationary Impact : Indirect taxes can lead to higher prices of goods and services, contributing to inflation. To reduce this, the government may lower tax rates on essential commodities.
(iv) Possibility of Tax Evasion : There is scope for tax evasion in indirect taxes. For example, customers may purchase goods or services without requesting a bill, avoiding taxes such as VAT or service tax.

101. The image shows a government-owned park collecting entry fees. Classify the revenue generated and explain how it contributes to non-tax revenue.



Ans : SQP 2017

Entry fees collected at government-owned parks fall under non-tax revenue. Non-tax revenue includes income earned by the government through fees, fines, and other charges. This revenue supports maintenance and development without imposing taxes on the general public.

102. Examine the following image of a toll booth on a highway. State and explain the type of revenue generated by the government through this source.



Ans : MAIN 2014

The toll collected at a highway toll booth represents non-tax revenue. This revenue is generated by the government through user fees for services provided, such as maintaining highways. It does not involve taxation but is a charge for using specific infrastructure or facilities.

103. The image depicts customs duty being collected on imported goods. Classify this tax as direct or indirect and explain its importance in the government's revenue structure.



Ans : COMP 2018

Customs duty is classified as an indirect tax because it is levied on goods imported or exported. The burden of this tax is ultimately passed on to consumers through higher prices of imported goods. Importance in the Government's Revenue Structure : Customs duty is a vital source of revenue for the government. It helps regulate trade by making imported goods less competitive compared to domestically produced items, encouraging local industry growth. Additionally, it protects strategic industries, controls the flow of restricted goods, and ensures compliance with international trade agreements. Customs duty contributes significantly to the government's non-tax revenue, aiding in economic development and funding public services.

104. "Direct taxes are equitable as they ensure fairness in taxation." Justify the statement with two reasons.

Ans : MAIN 2019

(i) Progressive Nature : Direct taxes, like income tax, follow a progressive system where individuals with higher earnings pay a greater percentage of their income as tax.

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This ensures fairness by imposing a larger burden on those who can afford it.

(ii) Reduction in Inequality : The revenue collected from direct taxes is often used for welfare schemes such as healthcare, education, and infrastructure, which benefit lower-income groups, thereby reducing income disparities in society.

105. "GST simplifies the tax system and promotes economic growth." Explain the statement with two points.

Ans : SQP 2020

(i) Elimination of Cascading Effect : GST replaces multiple indirect taxes, removing the tax-on-tax effect. This reduces the overall cost of goods and services, making them more affordable for consumers and improving market efficiency.

(ii) Ease of Compliance : By integrating various taxes into one system, GST reduces administrative burdens for businesses and the government. This simplicity encourages compliance, reduces tax evasion, and fosters a business-friendly environment, boosting economic growth.

106. "Indirect taxes are regressive in nature but beneficial for government revenue." Justify this statement with two points.

Ans : COMP 2023

(i) Regressive Impact : Indirect taxes, such as GST, apply uniformly to all consumers, regardless of their income level. This means low-income individuals spend a higher percentage of their income on taxes, making them regressive.

(ii) Steady Revenue Source : Indirect taxes are included in the price of goods and services, ensuring a consistent flow of revenue to the government. They are difficult to evade and contribute significantly to funding public projects and services.

107. "Non-tax revenue plays a significant role in supporting government finances." Explain with two examples.

Ans : SQP 2024

(i) Public Enterprise Profits : Non-tax revenue includes income from government-owned enterprises such as railways and power utilities. These revenues help the government fund development projects without relying solely on taxes.

(ii) Fees and Penalties : The government earns non-tax revenue from fees, fines, and penalties, such as traffic violations and licensing charges. These sources contribute to public finances without burdening taxpayers further.

108. "Progressive taxes help in reducing economic inequality." Explain this statement with two reasons.

Ans : COMP 2000

(i) Higher Contributions from Wealthier Individuals : Progressive taxes, like income tax, impose higher rates on individuals with greater earnings. This ensures that the wealthy contribute more to government revenue, promoting equity.

(ii) Redistribution of Wealth : The funds collected from progressive taxes are often allocated to welfare programs aimed at improving living standards for lower-income groups. This redistribution narrows the gap between rich and poor, fostering social and economic balance.

109. Identify which of the following taxes is progressive and justify your answer:

(i) Income tax.

(ii) GST on luxury goods.

Ans : SQP 2001

(i) Income tax is progressive because it is based on the principle of equity, where taxpayers with higher income pay a larger percentage of their earnings as tax. This ensures fairness in the tax system and reduces income inequality.

(ii) GST on luxury goods, although targeting high-end products, is regressive because it applies the same rate to all consumers, irrespective of their income levels. This places a relatively heavier burden on lower-income groups.

110. Explain which of the following will be included in the tax revenue of the government:

(i) Customs duty paid on imported goods.

(ii) Profit earned by public sector companies like Indian Railways.

Ans : MAIN 2002

(i) Customs duty is part of tax revenue because it is an indirect tax collected by the government on goods imported or exported. It contributes significantly to the country's taxation system and helps regulate international trade.

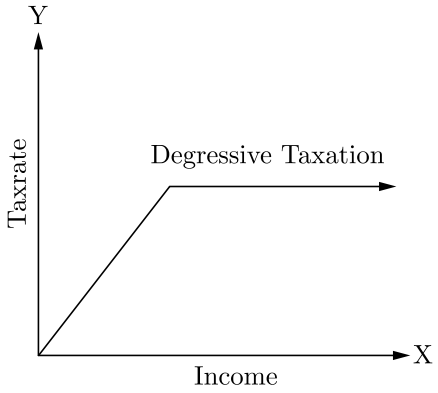
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7. Economical : Collecting direct taxes is cost-efficient. For example, income tax is collected annually, minimizing administrative expenses compared to frequent collections of indirect taxes like sales tax or excise duties, which are more expensive to administer.

86. What is digressive tax?

Ans : MAIN 2019,2016

Digressive tax refers to a tax system where the tax rate increases up to a certain income level and then remains uniform for higher income brackets. It combines elements of both proportional and progressive tax systems. As income rises, the absolute tax collection increases but at a slower rate.



87. Indirect taxes are regressive in nature. How can they be made progressive?

Ans : SQP 2019, 2013

Indirect taxes can be made progressive by introducing differential tax rates for essential and luxury goods. For instance:

(i) Lower tax rates or exemptions can be applied to basic necessities, reducing the burden on lower-income groups.

(ii) Higher tax rates can be imposed on luxury items, ensuring that individuals with higher incomes contribute more.

88. Indirect taxes sometimes help in social reforms. Explain.

Ans : COMP 2017,2016

Indirect taxes are applied to all products without considering the income levels of consumers, making them regressive. However, they can aid social reform by:

(i) Imposing heavy taxes on luxury goods, discouraging their consumption among high-income groups.

(ii) Applying lower taxes or exemptions on essential goods, making them affordable for the lower-income groups.

89. Define Direct Tax. Give two examples.

Ans : MAIN 2016

Direct taxes are those levied on the income or assets of individuals or organizations. For instance, taxes like income tax, real property tax, and personal property tax fall under this category. The unique feature of direct taxes is that the responsibility to pay and the burden of the tax rest on the same individual or entity. For example, in the case of income tax, the taxpayer who is liable to pay the tax also bears its burden.

90. Mention one way by which the Government can reduce the inequalities of income and wealth in an economy.

Ans : SQP 2016

(i) Progressive Taxation : The government can reduce income inequalities by imposing progressive taxes, where higher-income groups pay higher tax rates. The revenue collected can be redistributed to lower-income groups, promoting equity.

(ii) Increasing Government's Expenditure : The government can invest in development projects like healthcare, education, and welfare schemes. This helps bridge the gap between the rich and the poor by improving living standards for disadvantaged groups.

91. Define an indirect tax with the help of an example.

Ans : COMP 2015

Indirect taxes are taxes where the incidence and impact fall on different individuals. The seller collects the tax from the consumer and then pays it to the government. Examples include Goods and Services Tax (GST), sales tax, and excise duty.

92. Direct taxes are progressive in nature. Briefly explain.

Ans : MAIN 2015

Progressive taxes are those in which the tax rate increases with an increase in the taxpayer's income. The amount of tax paid rises at a higher rate compared to the increase in income. This ensures that individuals with higher incomes contribute more, making direct taxes progressive in nature.

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118. "Indirect taxes are regressive in nature." Justify this statement with two points.

Ans : COMP 2010

(i) Uniform Tax Rates : Indirect taxes apply the same rate to all consumers, regardless of income, placing a heavier burden on low-income groups.

(ii) Impact on Essential Goods : Even necessities like food items may be taxed, disproportionately affecting those with limited financial resources.

119. "Public finance plays a key role in economic stability." Justify the statement with two arguments.

Ans : MAIN 2011

(i) Resource Allocation : Public finance helps the government allocate resources efficiently for infrastructure, healthcare, and education, promoting growth.

(ii) Revenue Generation : Through tax and non-tax revenues, the government ensures a steady inflow of funds to manage public expenditure and reduce economic disparities.

120. Explain why the government collects higher customs duty on imported luxury cars compared to essential goods like medical equipment.

Ans : COMP 2012

The government imposes higher customs duty on luxury cars to discourage the import of non-essential items and protect domestic automobile industries. This also aligns with the principle of progressive taxation, where high-income earners bear a greater share of the tax burden. On the other hand, essential goods like medical equipment are taxed lower to promote public health and ensure accessibility to life-saving technologies. This differentiation reflects the government's commitment to social welfare while also regulating trade.

121. Electricity bills for domestic consumers and industrial users have different tariffs. Explain why the government charges varying rates.

Ans : SQP 2013

Domestic electricity tariffs are kept lower to make electricity affordable for households, especially for economically weaker sections. This helps in ensuring that basic energy needs are met without financial strain. Industrial users, however, consume electricity in large quantities for profit-oriented activities. Higher tariffs are imposed on them to recover the cost of large-scale energy supply and contribute to government revenue. This differential pricing ensures fairness and encourages efficient energy usage by industries.

122. The government charges entertainment tax on movie tickets but not on school fees. Explain the rationale behind this policy.

Ans : MAIN 2014

Entertainment tax is levied on non-essential activities like movies, concerts, and other leisure services. These taxes serve as a source of revenue without affecting necessities. School fees, on the other hand, are exempt because education is considered a fundamental right and a necessity for societal development. The exemption ensures afford ability and accessibility to education for all, while entertainment tax primarily targets discretionary spending by consumers.

123. A pensioner receives a tax exemption on their income, while a working professional pays full tax. Justify the government's rationale behind this policy.

Ans : COMP 2015

Tax exemptions for pensioners reflect the government's recognition of their limited earning capacity and the need for financial security in retirement. Pensioners often rely on fixed incomes and face higher medical and living costs. Exempting them from taxes reduces their financial burden. In contrast, working professionals are in active employment and have greater earning potential. Taxing them fully ensures a steady revenue stream for the government while promoting equity in the taxation system.

124. Mention any two sources of non-tax revenue of the Central Government in India.

Ans : MAIN 2011

(i) Interest Receipts : The largest source of non-tax revenue for the Central Government is interest income. This is earned from loans advanced to state governments, financial institutions, and industrial enterprises in the public sector.

(ii) Railways : The Indian railways, owned and managed by the government, contribute to non-tax revenue through the payment of a fixed dividend on the capital invested in railways.

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(ii) Profit from public sector companies is classified as non-tax revenue. This revenue arises from government-owned enterprises' economic activities, such as transport services and electricity boards, and does not involve mandatory taxation.

111. Determine whether the following is direct tax or indirect tax and explain your choice:
(i) Corporation tax paid by companies.
(ii) GST on consumer goods.

Ans : COMP 2003

(i) Corporation tax is a direct tax because it is levied directly on the income of companies. The burden of this tax cannot be shifted to others and is paid by the company earning the income.
(ii) GST is an indirect tax as it is included in the price of goods and services. Consumers indirectly pay this tax while purchasing products, and the responsibility for remittance lies with the seller or service provider.

112. Identify which of the following qualifies as commercial revenue of the government:
(i) Fees charged for issuing driving licenses.
(ii) Taxes collected on the sale of property.

Ans : SQP 2004

(i) Fees for driving licenses are classified as commercial revenue since they are charges levied for providing specific government services, like registration or issuing permits. This revenue is part of non-tax revenue and supports administrative expenses.
(ii) Taxes collected on property sales are part of tax revenue as they are compulsory payments imposed under the taxation system. These are direct taxes that contribute to government revenue and are based on the value of the property.

113. "Direct taxes are progressive and ensure fairness in the taxation system." Justify the statement with two valid arguments.

Ans : MAIN 2005

(i) Higher Tax Burden on the Wealthy : Direct taxes, like income tax, impose higher rates on individuals with greater earnings, ensuring that the wealthy contribute more to government revenue.
(ii) Reduction in Income Inequality : Revenue collected from direct taxes is often used for welfare programs, benefiting lower-income groups and reducing economic disparities.

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114. "In the case of indirect taxes, the burden can be shifted from one person to another." Explain with two arguments.

Ans : COMP 2006

(i) Inclusion in Product Prices : Indirect taxes, such as GST, are included in the price of goods and services, and the burden is passed to the consumer who purchases them.
(ii) Consumer Responsibility : The seller collects the tax on behalf of the government, transferring the financial obligation to the end-user without affecting the seller's income.

115. "GST was introduced to simplify the tax structure in India." Justify the statement with two points.

Ans : SQP 2007

(i) Elimination of Multiple Taxes : GST replaced various indirect taxes like VAT, excise duty, and service tax, consolidating them into a single tax structure.
(ii) Ease of Compliance : Businesses and consumers now deal with one tax system, reducing administrative burdens and improving efficiency in tax collection.

116. "Non-tax revenue is an important source of government income." Justify this statement with two examples.

Ans : MAIN 2008

(i) Earnings from Public Enterprises : Revenue from government-owned entities like railways and electricity boards contributes significantly to non-tax revenue.
(ii) Fees and Fines : The government generates non-tax revenue through charges like license fees, traffic fines, and penalties, supporting public expenditure.

117. "Progressive taxes help in reducing economic inequality." Support the statement with two arguments.

Ans : SQP 2009

(i) Higher Contribution from Richer Individuals : Progressive taxes charge higher rates for individuals with greater incomes, ensuring fairness in taxation.
(ii) Redistribution of Wealth : The funds collected are often used for welfare programs like healthcare and education, benefiting lower-income groups.

(d) Wide Coverage : Indirect taxes apply to a wide range of goods and services, ensuring that a large portion of the population contributes to government revenue.

(e) Elastic and Productive : Indirect taxes are flexible as their rates can be adjusted according to government needs. They are also productive, generating significant revenue due to their broad application.

(ii) Demerits of Indirect Taxes

(a) Regressive Nature : Indirect taxes disproportionately affect lower-income groups as everyone pays the same rate, regardless of income level. This places a heavier financial burden on the poor.

(b) Lack of Social Consciousness : Since indirect taxes are included in the price of goods, consumers may not realize they are paying taxes. This reduces public awareness of taxation's role in governance.

(c) Inflationary Effect : Indirect taxes increase the price of goods and services, contributing to inflation. To counter this, the government may lower tax rates on essential items.

(d) Possibility of Evasion : There is a chance of evasion when transactions occur without official billing. For example, consumers may avoid paying sales tax or VAT by purchasing goods without receipts or obtaining services without bills.

129. (i) Define Tax.

(ii) Give three differences between direct taxes and indirect taxes.

Ans : SQP 2019,2016,2011

(i) A tax is a compulsory payment imposed on individuals or organizations by the government to finance public expenditures and provide common benefits to society.

(ii)

Aspect	Direct Taxes	Indirect Taxes
Imposition	Imposed on income and/or property.	Imposed on goods, services, or transactions.
Payment Responsibility	Paid directly by the individual or organization on whom it is imposed.	Paid by one person but the burden can be shifted to another (e.g., consumers).
Burden	Cannot be transferred to others.	Can be transferred to others.
Assessment	Levied based on the taxpayer's ability to pay.	The taxpayer's ability to pay is assessed indirectly.
Examples	Income tax, wealth tax, corporate tax, estate duty.	GST, customs duty, excise duty.

130. Explain any five characteristics of tax.

Ans : COMP 2018

The five characteristics of tax are as follows:

(i) Compulsory Payment : Paying taxes is mandatory for all eligible individuals and organizations. Failure to pay is subject to legal action and penalties by the government.

(ii) General Welfare : The revenue collected from taxes is used for public welfare, such as infrastructure development, education, and healthcare.

(iii) No Quid Pro Quo : Taxes are not payments for specific services. Taxpayers do not receive a direct or proportionate benefit from the government for the taxes they pay.

(iv) Periodic Payment : Taxes are collected at regular intervals, as determined by the government or taxing authority.

(v) Legal Collection : Taxes are levied under the law and must be paid as per the regulations set by the government.

131. (i) Explain the meaning of the following terms:

(a) Impact

(b) Shifting

(c) Incidence

(ii) To which tax are these terms relevant? Explain any one merit and two demerits of this tax.

Ans : MAIN 2017,2012

(i) Meaning of Terms:

(a) Impact : Refers to the immediate effect or influence of imposing a tax.

(b) Shifting : Refers to transferring the burden of tax from one person to another.

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individuals and entities. It is mandatory and contributes significantly to government revenue through its taxation system.

140. The government charges lower GST rates on essential goods and higher rates on luxury goods. Explain why GST rates differ for different types of goods.

Ans : MAIN 2001

The GST system is structured to ensure equity and afford ability. Essential goods like food, medicines, and educational materials are taxed at lower rates to make them accessible to the general population, including low-income groups. Luxury goods, on the other hand, are non-essential and primarily consumed by higher-income individuals. By taxing luxury items at higher rates, the government ensures progressive taxation and generates additional revenue without burdening the economically weaker sections. This also discourages unnecessary consumption of high-end goods.

141. A farmer and a business owner both purchase fuel, but the farmer pays a lower tax on diesel. Justify why the government charges different tax rates on fuel for different consumers.

Ans : COMP 2002

The government provides reduced tax rates on diesel for farmers as part of its subsidy programs to support agriculture, which is vital for food security and rural livelihoods. Lower diesel prices help farmers reduce production costs, ensuring affordable agricultural produce for consumers. Business owners, however, use fuel for profit-making activities, and higher taxes are imposed to ensure fair revenue collection. This differential tax structure reflects the government's objective of supporting essential sectors like agriculture while generating revenue from commercial usage.

142. Two individuals purchase train tickets one for general class and another for first class. Explain why ticket prices differ for different classes of travel.

Ans : SQP 2003

The price variation in train tickets is based on the level of service and facilities provided. General class is designed to be affordable, catering to economically weaker sections and ensuring inclusivity in transportation. First-class passengers enjoy premium services like better seating, privacy, and additional amenities, which justify the higher price. This tiered pricing model allows railways to generate revenue from luxury services while maintaining afford ability for the masses, ensuring accessibility for all socioeconomic groups.

143. Read the extract and answer the following questions.

A new government initiative has been launched to simplify tax compliance for small businesses. The initiative focuses on helping businesses understand the differences between direct and indirect taxes and their impact on profitability.

(i) Name the type of tax (direct or indirect) that is not explicitly mentioned in the extract.

(ii) Explain any four merits of the above (i) type of tax.

Ans : MAIN 2004

(i) Indirect tax.

(ii) Merits of indirect tax:

(a) Convenience : Indirect taxes are included in the price of goods and services, making them convenient for both taxpayers and the government.

(b) Wide Coverage : They apply to all consumers, ensuring a broad tax base.

(c) Ease of Collection : Businesses collect these taxes on behalf of the government, reducing administrative efforts.

(d) Encourages Savings : Since taxes increase the cost of goods, they may discourage consumption and encourage saving.

144. Read the extract and answer the following questions.

The Goods and Services Tax (GST) was introduced in India to unify the taxation system. It aims to reduce the cascading effect of taxes, enhance compliance, and create a single national market. However, some businesses are still struggling to adapt to the new system.

(i) Name the primary objective of GST that addresses the issue of multiple taxes in the previous system.

(ii) Explain any four objectives of GST in detail.

Ans : COMP 2005

(i) Elimination of the cascading effect of taxes.

(ii) Objectives of GST :

(a) Unified Tax System : GST replaces multiple indirect taxes with a single tax, simplifying compliance.

(b) Reduction in Tax Evasion : A robust IT system under GST makes tax evasion difficult.

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compliance costs, and creating a unified national market. GST simplifies the tax structure by consolidating various taxes into a single system with transparent rules, promoting ease of doing business. Unlike the previous tax regime, which involved different taxes at multiple levels, GST ensures uniformity in taxation across states and reduces tax evasion through an integrated IT system. It fosters economic growth by encouraging efficiency and reducing the overall tax burden.

137. The following table shows the hypothetical tax revenue collected from two sources (Direct and Indirect Taxes) for different years in a country:

Year	Direct Tax Revenue (in Rs Crores)	Indirect Tax Revenue (in Rs Crores)	Total Tax Revenue (in Rs Crores)
2019	200	(i) ___	500
2020	(ii) __	350	600
2021	300	400	(iii) __
2022	350	450	800

(i) What is the Indirect Tax Revenue collected in 2019? (i)
(ii) What is the Direct Tax Revenue collected in 2020? (ii)
(iii) Calculate the Total Tax Revenue collected in 2021. (iii)
(iv) From the table, identify the trend in tax collection over the years.
(v) Differentiate between Direct and Indirect Taxes based on their impact on taxpayers.

Ans : SQP 2023

(i) Indirect Tax Revenue in 2019 = Rs. 300 crores.
(ii) Direct Tax Revenue in 2020 = Rs. 250 crores.
(iii) Total Tax Revenue in 2021 = Rs. 700 crores.
(iv) The trend shows a consistent increase in tax collection from 2019 to 2022, indicating economic growth and improved compliance.
(v) Direct taxes are levied on income or profits and are paid directly by the taxpayer (e.g., income tax). Indirect taxes are levied on goods and services and are passed on to consumers (e.g., GST).

138. The following table shows the tax burden on three income groups under different tax structures (Progressive, Proportional, Regressive):

Income Group (Rs)	Progressive Tax (%)	Proportional Tax (%)	Regressive Tax (%)
1,00,000	5	10	20
5,00,000	10	10	15
10,00,000	20	10	10

(i) What is the tax rate for the highest income group under the Regressive Tax structure?
(ii) Identify the tax structure that ensures equity in income distribution.
(iii) Compare the Proportional and Progressive Tax structures using the table.
(iv) Mention one advantage of the Regressive Tax structure based on the table.
(v) Explain the limitations of the Progressive Tax structure.

Ans : MAIN 2024

(i) Tax rate for the highest income group under the Regressive Tax structure = 10%.
(ii) The Progressive Tax structure ensures equity in income distribution.
(iii) Comparison : Proportional Tax applies a flat rate (10%) to all income levels, while Progressive Tax increases rates with higher income, ensuring fairness.
(iv) Advantage : Regressive Tax provides simplicity in administration and incentivise higher earners to spend more.
(v) Limitation : Progressive Tax can discourage productivity and create compliance challenges for higher-income earners.

CASE BASED QUESTION

139. By giving valid reasons, explain which of the following is considered non-tax revenue:
(i) Interest income earned by the government from loans given to public enterprises.
(ii) Income tax collected from salaried individuals.

Ans : SQP 2000

(i) Interest income is classified as non-tax revenue because it is generated from the government's financial activities, such as lending to public enterprises or state governments. It does not involve compulsory contributions from the public and is a return on government assets.
(ii) Income tax is part of tax revenue since it is a direct tax imposed on the earnings of

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CHAPTER 7

PUBLIC EXPENDITURE AND PUBLIC DEBT

SUMMARY

1. PUBLIC EXPENDITURE

Public expenditure refers to the spending undertaken by the government for its own operations and to provide various social and economic benefits. Essentially, it includes all expenditures made by public authorities to fulfill common needs that individuals cannot meet on their own.

2. TYPES OF PUBLIC EXPENDITURE

This type of expenditure results in an increase in government assets or a reduction in liabilities. For example, expenses on building national highways, dams, and repayment of loans fall under this category.

3. REVENUE EXPENDITURE

This includes government spending that does not create assets or reduce liabilities. Examples include spending on pensions, salaries, and other operational costs.

4. REASONS FOR INCREASING PUBLIC EXPENDITURE

1. Defense and security needs
2. Strengthening economic infrastructure
3. Population growth and urbanization
4. Industrial development
5. Government subsidies and economic incentives
6. Administrative machinery expansion
7. Debt repayment
8. National income growth
9. Developmental projects
10. Grants provided to states for specific purposes

5. PUBLIC DEBT

Public debt refers to the total amount, including liabilities, borrowed by the government to support its development budget. The sources of public debt include government securities, treasury bills, external assistance, and short-term loans.

6. TYPES OF PUBLIC DEBT

6.1 Productive and Unproductive Debt

1. Productive Debt : Borrowing used to finance projects that generate revenue, such as irrigation and power projects.
2. Unproductive Debt : Borrowing used for non-revenue-generating activities like war or emergency relief efforts.

6.2 Redeemable and Irredeemable Debt

1. Redeemable Debt : A debt that must be repaid within a specified period.
2. Irredeemable Debt : A perpetual debt where repayment is not mandatory, though interest payments are regular.

6.3 Funded and Unfunded Debt

1. Funded Debt : Long-term borrowing that is repaid over several years.
2. Unfunded Debt : Short-term borrowing, often used by organizations facing immediate financial shortfalls.

6.4 Internal and External Debt

1. Internal Debt : Borrowing from domestic sources like citizens, banks, or financial institutions within the country.
2. External Debt : Borrowing from foreign entities like international organizations (e.g., IMF, World Bank) or foreign governments.

6.5 Compulsory and Voluntary Debt

1. Voluntary Debt : Loans offered willingly by citizens to the government.
2. Compulsory Debt : Loans enforced by the government during emergencies (e.g., war or natural disasters).

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(c) Ease of Doing Business : By reducing tax-related complexities, GST promotes business-friendly policies.
(d) Transparent Taxation : GST provides clarity on tax rates, ensuring transparency in the tax system.

145. Read the extract and answer the following questions.
A recent report highlights the importance of non-tax revenue for the government, focusing on income generated from public enterprises, fees, and penalties. However, the report also indicates a decline in income from state-owned resources due to mismanagement.
(i) Name the source of public revenue (tax or non-tax) discussed in the report.
(ii) Explain any four examples of non-tax revenue in detail.

Ans : SQP 2006

(i) Non-tax revenue.
(ii) Examples of non-tax revenue:
(a) Dividends from Public Enterprises : Income earned from government-owned corporations like Indian Railways.
(b) Fees and Penalties : Charges for services such as registration fees or penalties for violations.
(c) Natural Resource Revenue : Income from oil, gas, or mineral extraction.
(d) Grants or Aid : Financial assistance from foreign governments or international organizations.

146. Read the extract and answer the following questions.
Progressive taxes are often preferred for their ability to address income inequality. However, some critics argue that proportional taxes are simpler to administer, despite their limited impact on equity.
(i) Name the type of tax classification (progressive, proportional, regressive, or digressive) not mentioned in the extract.
(ii) Explain any four characteristics of the above (i) type of tax.

Ans : COMP 2007

(i) Regressive tax.
(ii) Characteristics of regressive tax:
(a) Burden on Lower-Income Groups : Regressive taxes disproportionately affect low-income individuals.
(b) Flat Rate : The tax rate remains the same regardless of income level.
(c) Revenue Stability : They ensure steady government revenue as everyone contributes equally.
(d) Examples : Indirect taxes like GST and excise duty are regressive in nature.

147. Read the extract and answer the following questions.
A workshop for small entrepreneurs focused on public finance and its relevance. During the session, the speaker explained the importance of understanding direct taxes and how they differ from indirect taxes in terms of burden and collection.
(i) Identify which type of tax (direct or indirect) involves passing the burden to consumers.
(ii) Explain any four differences between direct and indirect taxes.

Ans : MAIN 2008

(i) Indirect tax.
(ii) Differences between direct and indirect taxes:
(a) Burden : Direct taxes are paid by the individual or entity directly, while indirect taxes are passed on to consumers.
(b) Equity : Direct taxes promote equity as they are progressive, whereas indirect taxes are regressive.
(c) Collection : Direct taxes are collected directly from income or profits, while indirect taxes are collected at the point of sale.
(d) Examples : Income tax and corporate tax are direct taxes; GST and excise duty are indirect taxes.

148. Read the extract and answer the following questions.
A seminar was conducted to discuss the benefits of direct taxes in ensuring equitable income distribution. The panel highlighted the role of income tax in reducing inequality but also addressed challenges such as tax evasion.
(i) Identify the type of tax (direct or indirect) discussed in the seminar.
(ii) Explain any four merits of the above (i) type of tax.

Ans : SQP 2009

(i) Direct tax.
(ii) Merits of direct tax:

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(c) Incidence : Refers to the final impact of tax on the individual who ultimately bears its burden, often analyzed in terms of economic welfare.

(ii) These terms are relevant to indirect taxes.

Merits of Indirect Taxes:

(a) Convenience : They are paid at the time of purchase and are included in the price of goods, making them easy to pay.

Demerits of Indirect Taxes:

(a) Regressive Nature : They impose a heavier burden on low-income groups.

(b) Inflationary : Indirect taxes increase the price of goods and services, contributing to inflation.

132. Define a Tax. Explain briefly three merits of a Direct Tax.

Ans : SQP 2015

A tax is a compulsory payment made by citizens to the government to cover public expenditures and promote general welfare. Taxpayers do not receive direct benefits from these payments. Example : Income tax.

Merits of Direct Tax:

(i) Equity : Ensures fairness as higher-income groups pay more taxes.

(ii) Certainty : Taxpayers know their liabilities in advance.

(iii) Economical : Cost-effective to administer as it is collected annually.

133. Distinguish between Regressive Tax and Degressive Tax.

Ans : COMP 2019

Regressive Tax	Degressive Tax
A tax system where the rate of taxation decreases as the taxpayer's income increases.	A tax system where the rate of taxation increases initially but does not increase in the same proportion as income rises.
Takes a smaller percentage of income from high-income earners. In this system, the tax rate falls as income increases.	The tax rate increases up to a certain limit, after which a uniform rate is applied and remains constant.

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134. In the context of the growing importance of public finance in economic stability, what is the meaning of public finance, and why is it considered crucial for a country's development?

Ans : MAIN 2020

Public finance refers to the branch of economics that studies how governments manage their revenue, expenditure, and debt to achieve economic stability and growth. It focuses on the efficient allocation of resources to meet public needs, such as infrastructure development, healthcare, and education. Public finance is crucial because it ensures the government has adequate funds to implement welfare programs, reduce income inequality, control inflation, and address market failures. It also plays a key role in promoting economic stability and fostering sustainable development by maintaining fiscal discipline.

135. With the increasing reliance on tax revenue as a primary source of public finance, how do direct and indirect taxes differ in terms of their nature and impact on taxpayers?

Ans : SQP 2021

Direct taxes are levied directly on individuals or entities based on their income, profits, or wealth, such as income tax and corporate tax. These taxes are progressive, meaning they increase with the taxpayer's ability to pay, promoting economic equity. Indirect taxes, on the other hand, are levied on goods and services, such as GST and excise duty, and are included in the price of products. They are regressive in nature, as they affect all consumers equally regardless of income, disproportionately burdening lower-income groups. The key difference lies in who bears the tax burden direct taxes are paid by the individual or entity directly taxed, while indirect taxes are transferred to consumers.

136. In the context of India's efforts to simplify the tax structure, what are the primary objectives of the Goods and Services Tax (GST), and how does it differ from the previous tax regime?

Ans : MAIN 2022

The Goods and Services Tax (GST) is a comprehensive indirect tax reform introduced to replace multiple taxes such as VAT, service tax, and excise duty. Its primary objectives include eliminating the cascading effect of taxes, reducing

(ii) Explain any four characteristics of the above (i) type of tax.

Ans : COMP 2024

(i) Regressive tax.

(ii) Characteristics of regressive tax:

(a) Uniform Application : Tax rate is the same for all, regardless of income, affecting lower-income groups more.

(b) Revenue Generation : Ensures steady government revenue as everyone contributes.

(c) Simple to Administer : Easy to implement and collect as part of product prices.

(d) Examples : GST, VAT, and excise duty are common regressive taxes.

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Ans : SQP 2021

(b) Productive
Productive debts are loans utilized by the government for projects that generate income or contribute to economic growth.

8. What is the type of public debt where the principal amount is not repaid by the government?
(a) Redeemable debt
(b) Irredeemable debt
(c) Social debt
(d) Public debt

Ans : SQP 2021

(b) Irredeemable debt

9. Capital expenditure _____:
(a) Leads to an increase in government assets
(b) Leads to a reduction in government liabilities
(c) Are expenses on construction of national highways
(d) All of the above

Ans : MAIN 2017

(d) All of the above

10. An example of development programmes of government is:
(a) Provision of infrastructure of the company, such as transport, etc.
(b) Telecommunication
(c) Expenditure on civil administration
(d) All of the above

Ans : COMP 2016

(d) All of the above
As part of economic development, many underdeveloped countries have launched various programs focused on building infrastructure, including transport, communication, power, and strengthening civil administration.

11. Debt owed to locally owned banks in the local currency is _____ debt.
(a) Irredeemable
(b) External
(c) Redeemable
(d) Internal

Ans : MAIN 2015

(d) Internal
Debt owed to domestically owned banks and denominated in the local currency is referred to as internal debt.

12. Redemption of public debt means:
(a) Refusal to pay public debt
(b) Repayment of public debt
(c) Linking public debt with inflation rate
(d) Redefining public debt in terms of foreign currency

Ans : SQP 2014

(b) Repayment of public debt

13. Which loans are repayable in foreign currencies?
(a) Internal
(b) External
(c) Redeemable
(d) Irredeemable

Ans : COMP 2013

(b) External
External debts are loans that must be repaid in foreign currencies.

14. Which of the below is the reason for increase in administrative machinery?
(a) Rapid growth of population
(b) Economic development
(c) Both (a) and (b)
(d) None of the above

Ans : MAIN 2012

(c) Both (a) and (b)
The rapid growth of population and economic development has led to an expansion in the administrative machinery of the country.

15. Government has been providing subsidies on:
(a) Fertilizers
(b) Food
(c) Education
(d) All of the above

Ans : SQP 2011

(d) All of the above
The Government of India offers subsidies on various items, including food, fertilizers, interest for priority sectors, exports, and education.

16. Expenditure on controlling floods is an example of _____ debt.
(a) Productive debt
(b) Unproductive debt
(c) Funded debt
(d) External debt

Ans : MAIN 2010

(b) Unproductive debt

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6.6 Gross and Net Debt

1. Gross Debt : The total book value of all liabilities on a company's balance sheet.
2. Net Debt : The gross debt minus cash or cash-equivalent assets.

MULTIPLE CHOICE QUESTION

1. The debt borrowed by the government from within the boundaries of the country is called as ..... debt.
(a) Internal
(b) External
(c) Wholesale
(d) Retail

Ans : MAIN 2023

(a) Internal
Internal debt refers to funds borrowed by the government within the country through institutions or the public.

2. Which of the following statements is true about Public Expenditure?
(a) It is classified as capital expenditure and revenue expenditure.
(b) It is the expenditure that the government incurs for its own maintenance.
(c) It is the expenditure that the government incurs to provide various benefits to society and the economy.
(d) All of the above.

Ans : SQP 2024

(d) All of the above.
Public expenditure refers to the spending undertaken by the government for its own functioning and for delivering various benefits to society and the economy. It is broadly categorized into capital expenditure and revenue expenditure.

3. Identify which of the following options the central government does not include in the development expenditure?
(a) Defence expenditure
(b) Expenditure on economic activities
(c) Expenditure on social and community services
(d) Grants to states

Ans : COMP 2021

(a) Defence expenditure
Development expenditure refers to government spending aimed at promoting economic growth by enhancing production and increasing the country's real income. The central government excludes defense expenditure from the scope of development expenditure.

4. External debts can be raised from:
(a) Individuals
(b) RBI
(c) World Bank
(d) Commercial Banks

Ans : SQP 2020

(c) World Bank
External debt can be sourced from foreign commercial banks, international organizations such as the International Monetary Fund (IMF), the World Bank, and other global financial institutions.

Which entity manages public debt operations of the Government of India?
(a) Union Ministry of Finance
(b) The controller of capital issues
(c) State Bank of India
(d) RBI

Ans : MAIN 2019

(d) RBI
The Reserve Bank of India (RBI) manages the public debt for the Central Government. It oversees exchange, remittance, and banking operations, including the administration of the Union's public debt.

6. Identify the types of public expenditure:
(a) Capital expenditure
(b) Revenue expenditure
(c) Both (a) and (b)
(d) None of the above

Ans : COMP 2018

(c) Both (a) and (b)
Public expenditure is broadly categorized into two types : capital expenditure and revenue expenditure.

7. The debt which yields income to the government is called as
(a) Gross
(b) Productive
(c) Unproductive
(d) Internal

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(a) Equity : Direct taxes are progressive, ensuring that individuals with higher incomes pay more, promoting economic fairness.
(b) Certainty : Taxpayers know the exact amount they owe, providing clarity in financial planning.
(c) Redistribution of Wealth : Revenue generated helps fund welfare programs, reducing income inequality.
(d) Control over Inflation : High direct taxes can reduce disposable income, controlling inflationary trends.

149. Read the extract and answer the following questions.
India has implemented a Goods and Services Tax (GST) to unify its indirect tax system. While the system aims to create a transparent market, some small businesses have struggled with compliance due to lack of awareness.
(i) Name the type of tax (direct or indirect) GST belongs to.
(ii) Explain any four objectives of GST in detail.

Ans : COMP 2010

(i) Indirect tax.
(ii) Objectives of GST:
(a) Unified Market : GST removes state-wise barriers, creating a seamless national market.
(b) Ease of Compliance : A standardized tax system simplifies compliance for businesses.
(c) Reduction in Cascading Taxes : Eliminates the "tax on tax" effect, reducing overall costs.
(d) Boost to Economy : By simplifying taxes, GST encourages investments and economic growth.

150. Read the extract and answer the following questions.
An economics class discussed the differences between proportional and progressive taxes. The teacher emphasized that proportional taxes are easier to administer but lack the equity that progressive taxes provide.
(i) Name the type of tax classification (progressive, proportional, regressive, or digressive) not mentioned in the extract.
(ii) Explain any four characteristics of the above (i) type of tax.

Ans : SQP 2011

(i) Digressive tax.
(ii) Characteristics of digressive tax:
(a) Partial Progressively : Tax rates are progressive up to a certain income level and become flat beyond that.
(b) Simpler Administration : Combines elements of progressive and proportional taxes for practical use.
(c) Limited Equity : Ensures moderate equity without being entirely progressive.
(d) Examples : Certain corporate tax structures that cap the rate after a specific income threshold.

151. Read the extract and answer the following questions.
The government aims to boost revenue without increasing tax rates by focusing on non-tax revenue. This includes higher dividends from public enterprises, increased user charges for services, and penalties for violations.
(i) Identify the type of revenue (tax or non-tax) discussed in the extract.
(ii) Explain any four characteristics of the above (i) revenue source.

Ans : MAIN 2012

(i) Non-tax revenue.
(ii) Characteristics of non-tax revenue:
(a) Diverse Sources : Includes fees, fines, profits, and grants, providing stability in government funding.
(b) No Tax Burden : Does not impose additional taxes on citizens, avoiding public resistance.
(c) Flexibility : Revenue can be adjusted by revising fees or charges without changing tax laws.
(d) Examples : Dividends from PSUs, fees for licenses, and income from natural resources.

152. Read the extract and answer the following questions.
A taxation workshop highlighted how indirect taxes such as GST and excise duty apply uniformly to all consumers, irrespective of income, leading to concerns about regressive impacts.
(i) Name the type of tax classification (progressive, proportional, regressive, or digressive) discussed in the extract.

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Unproductive public debt refers to borrowing by the government for expenditures that do not directly contribute to economic productivity, such as financing wars or spending on flood control measures.

17. The debt which government pays off after a specified date is _____ debt.
(a) Irredeemable debt
(b) Unproductive debt
(c) Productive debt
(d) Redeemable debt

Ans : COMP 2009

(d) Redeemable debt

18. Revenue expenditure _____:
(a) Does not cause any increase in the government assets
(b) Does not cause any decrease in the government liabilities
(c) Is expenditure on old age pensions
(d) All of the above

Ans : SQP 2008

(d) All of the above

19. An empirical law to the effect of growing public expenditure was propounded by:
(a) Peacock
(b) Wagner
(c) Wise man
(d) None of these

Ans : MAIN 2007

(b) Wagner
Adolph Wagner, a German political economist, proposed an empirical law to analyze and explain the trends in the growth of public expenditure.

20. External borrowing of the government of India includes borrowings from?
(a) Foreign governments
(b) Market borrowings
(c) International organizations like World Bank and IMF
(d) All of the above

Ans : COMP 2006

(b) Market borrowings
The Government of India has several external borrowing sources to meet its financial needs, including foreign governments, international markets, and organizations like the World Bank and the International Monetary Fund (IMF).

NODIA

21. Identify the sources of public debt.
(a) Treasury bills
(b) External assistance
(c) Short-term borrowings
(d) All of the above

Ans : SQP 2005

(d) All of the above
Public debt refers to the total amount borrowed by the government to finance its development budget. It encompasses all the sources mentioned, such as loans from domestic and external entities.

22. Capital expenditure is _____ in nature:
(a) Non-recurring
(b) Recurring
(c) Simple
(d) Complex

Ans : MAIN 2004

(a) Non-recurring
Capital expenditure refers to government spending that results in the creation of assets or a reduction in liabilities. Examples include expenses on constructing national highways, dams, and other infrastructure projects.

23. **Assertion (A) :** Public expenditure includes both revenue and capital expenditure to fulfill government functions.
Reason (R) : Revenue expenditure is used for day-to-day operations, while capital expenditure creates long-term assets like infrastructure.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2003

(a) Both A and R are true, and R is the correct explanation of A.
Public expenditure covers recurring (revenue) and long-term (capital) spending. Revenue expenses ensure daily operations, while capital expenses build assets, explaining the dual components of public expenditure.

24. **Assertion (A) :** Capital expenditure contributes to economic development by creating long-term assets.
Reason (R) : Examples of capital expenditure include building highways, railways, and power plants.

(a) Statement 1 is true and Statement 2 is false.
Public expenditure has increased due to factors like population growth, defense requirements, and welfare schemes, all aimed at improving living standards and national development.

51. **Statement 1 :** Public debt refers to the borrowing by the government to meet its expenditure.
Statement 2 : Public debt is only raised within the country and does not involve borrowing from foreign sources.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2001

(a) Statement 1 is true and Statement 2 is false.
Public debt includes both domestic and external borrowing. The government raises funds from citizens, financial institutions, and foreign sources to finance deficits.

52. **Statement 1 :** Internal debt is raised within the country through sources like bonds and treasury bills.
Statement 2 : External debt includes loans from international organizations like the World Bank and IMF.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2002

(c) Both Statements 1 and 2 are true.
Internal debt is raised domestically, while external debt involves borrowing from foreign institutions and governments to fund specific projects or deficits.

53. **Statement 1 :** Revenue expenditure includes spending on interest payments and government subsidies.
Statement 2 : Capital expenditure is recurring and does not create any productive assets for the government.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2003

(a) Statement 1 is true and Statement 2 is false.
Revenue expenditure includes recurring costs like subsidies and interest payments. Capital expenditure, on the other hand, is non-recurring and leads to asset creation.

54. **Statement 1 :** Developmental public expenditure includes spending on education, healthcare, and infrastructure.
Statement 2 : Non-developmental expenditure includes subsidies and grants for economic development.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2004

(a) Statement 1 is true and Statement 2 is false.
Developmental expenditure is aimed at improving infrastructure and public services. Non-developmental expenditure includes subsidies and grants for non-economic purposes like defense.

55. **Statement 1 :** Public debt can be classified into productive and unproductive debt.
Statement 2 : Productive debt is used to fund non-revenue-generating activities like military expenditure.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2005

(a) Statement 1 is true and Statement 2 is false.
Productive debt funds revenue-generating projects like building highways, while unproductive debt funds non-revenue-generating activities like military spending or public administration.

56. **Statement 1 :** External public debt has to be repaid in foreign currency.
Statement 2 : Internal public debt increases the foreign exchange burden of the government.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2006

(a) Statement 1 is true and Statement 2 is false.
External debt is repaid in foreign currency, affecting exchange reserves. Internal debt, raised domestically, has no impact on the country's foreign exchange reserves.

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fund developmental projects or public welfare programs.

30. Study the relationship in the first pair of terms and complete the second pair.
(i) Internal Public Debt : Borrowing within the country.
(ii) External Public Debt : _____.
(a) Borrowing from international organizations or countries
(b) Loans taken from state governments
(c) Issuance of government bonds domestically
(d) Short-term borrowing within the country

Ans : SQP 2004

(a) Borrowing from international organizations or countries
External public debt involves loans from foreign governments, international organizations (e.g., IMF, World Bank), or global markets to fund national projects.

31. Study the relationship in the first pair of terms and complete the second pair.
(i) Revenue Expenditure : Includes subsidies.
(ii) Capital Expenditure : Includes _____.
(a) Salaries of government employees
(b) Infrastructure development
(c) Welfare scheme payouts
(d) Interest on loans

Ans : MAIN 2005

(b) Infrastructure development
Capital expenditure focuses on creating physical assets like roads, bridges, and dams, which promote economic development over the long term.

32. Study the relationship in the first pair of terms and complete the second pair.
(i) Reason for Growth of Public Expenditure : Population growth.
(ii) Other Reasons : _____.
(a) Decreasing demand for welfare programs
(b) Increasing defense and infrastructure needs
(c) Reduced government intervention in the economy
(d) Decline in administrative responsibilities

Ans : COMP 2006

(b) Increasing defense and infrastructure needs
The growth of public expenditure in India is driven by increasing needs for defense, infrastructure development, education, healthcare, and welfare schemes to support a growing population and economy.

33. "Public expenditure used to create assets like highways, dams, or hospitals is classified as what type of expenditure?"
(a) Revenue expenditure.
(b) Capital expenditure.
(c) Non-tax revenue.
(d) Operational expenditure.

Ans : SQP 2007

(b) Capital expenditure.
Capital expenditure involves spending on infrastructure or assets that contribute to long-term economic growth, such as highways or hospitals, and generates future benefits for the economy.

34. "Public expenditure incurred for maintaining government operations, such as salaries and subsidies, is categorized as what type of expenditure?"
(a) Capital expenditure.
(b) Revenue expenditure.
(c) Non-tax revenue.
(d) Public debt.

Ans : MAIN 2008

(b) Revenue expenditure.
Revenue expenditure includes recurring expenses like salaries, pensions, and subsidies required to maintain government operations without creating long-term assets.

35. Which of the following is a reason for the growth of public expenditure in India?"
(a) Decreasing population.
(b) Privatization of industries.
(c) Economic development projects.
(d) Reduction in public welfare programs.

Ans : COMP 2009

(c) Economic development projects.
The growth of public expenditure in India is driven by large-scale economic development projects, defense spending, social welfare programs, and infrastructure investments to meet the needs of a growing population.

36. Debt borrowed by the government within the country through bonds and loans is known as what?"
(a) External debt.
(b) Internal debt.
(c) Short-term debt.
(d) Revenue debt.

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the World Bank." Select the appropriate option :
(i) True
(ii) False

Ans : COMP 2014

(ii) False
Internal public debt refers to borrowings from within the country, such as bonds issued to citizens or domestic institutions. Loans from the World Bank fall under external public debt.

66. "External public debt refers to loans borrowed by the government from international sources like foreign banks or governments." Select the appropriate option :
(i) True
(ii) False

Ans : SQP 2015

(i) True
External public debt consists of borrowings from foreign institutions, governments, or international organizations like the IMF or World Bank.

67. "Short-term public debt is typically repaid within a year, while long-term public debt extends over several years." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2016

(i) True
Short-term debt includes borrowings like treasury bills, which are repaid quickly, whereas long-term debt involves loans with extended repayment periods.

68. "Public debt is classified as productive debt when it is used to fund infrastructure projects that generate future income." Select the appropriate option :
(i) True
(ii) False

Ans : COMP 2017

(i) True
Productive debt is invested in projects like railways, roads, or power plants that contribute to economic growth and help repay the debt over time.

69. "Unproductive public debt refers to loans taken for immediate consumption or non-income-generating purposes." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2018

(i) True
Unproductive debt is used for purposes like war expenditure or social programs that do not create assets or generate direct income.

70. Identify the type of public expenditure depicted by these visuals.



(a) Revenue Expenditure
(b) Capital Expenditure
(c) Welfare Expenditure
(d) Developmental Expenditure

Ans : SQP 2019

(b) Capital Expenditure
The construction of infrastructure like bridges and buildings represents capital expenditure, as it leads to asset creation.

TWO MARKS QUESTIONS

71. How is internal debt different from external debt?

Ans : MAIN 2024

Internal debt comprises various instruments such as market loans, bonds, treasury bills, and advances. On the other hand, external debts include multilateral borrowings, bilateral borrowings, and loans sourced from institutions like the World Bank.

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44. Ms. Priya discussed a type of expenditure incurred by the government on day-to-day operations, such as salaries and pensions. What is this expenditure called?
(a) Revenue expenditure
(b) Capital expenditure
(c) Developmental expenditure
(d) Debt repayment expenditure

Ans : MAIN 2018

(a) Revenue expenditure
Revenue expenditure is spent on recurring needs like salaries, pensions, subsidies, and maintenance, which do not create long-term assets.

45. Mr. Suresh explained that 'expenditure incurred by the government to create long-term assets, such as roads, schools, and power plants, is classified as what type of expenditure?'
(a) Revenue expenditure
(b) Capital expenditure
(c) Non-development expenditure
(d) Administrative expenditure

Ans : SQP 2019

(b) Capital expenditure
Capital expenditure involves spending on infrastructure and asset creation, contributing to long-term economic growth.

46. Ms. Rekha discussed public debt as 'the borrowing undertaken by the government to meet its fiscal needs.' Which of the following is not a type of public debt?
(a) Internal debt
(b) External debt
(c) Productive debt
(d) Private debt

Ans : COMP 2020

(d) Private debt
Private debt refers to borrowings by individuals or businesses, whereas public debt includes internal and external loans taken by the government to finance its expenditure.

47. Mr. Arvind explained that 'public debt can be categorized based on its purpose, repayment terms, and sources.' What is an example of external public debt?
(a) Borrowing from domestic commercial banks
(b) Loans from the World Bank
(c) Issuing treasury bills in the domestic market
(d) Raising funds through public sector bonds

Ans : MAIN 2021

(b) Loans from the World Bank
External public debt refers to borrowing from foreign sources such as international financial institutions like the World Bank or foreign governments.

48. **Statement 1 :** Public expenditure refers to the spending by the government on various activities to meet public needs.
Statement 2 : Revenue expenditure creates long-term assets for the government, like highways or railways.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2022

(a) Statement 1 is true and Statement 2 is false.
Public expenditure includes government spending to provide goods and services. Revenue expenditure is for day-to-day expenses like salaries and subsidies, not for creating long-term assets.

49. **Statement 1 :** Capital expenditure involves spending on asset creation, such as constructing bridges or hospitals.
Statement 2 : Capital expenditure includes payments of salaries and pensions to government employees.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2023

(a) Statement 1 is true and Statement 2 is false.
Capital expenditure is used for infrastructure and asset development. Salaries and pensions fall under revenue expenditure as they do not result in asset creation.

50. **Statement 1 :** Public expenditure in India has grown due to increased developmental needs and welfare programs.
Statement 2 : Growth in public expenditure has no connection with population growth or defense needs.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2024

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6. Increase in National Income : A higher national income leads to increased government revenue through taxes and other sources, enabling greater public expenditure to address the economy's evolving needs.
7. Government Subsidies : Subsidies on essential items like food, fertilizers, priority sector interest rates, exports, and education have significantly added to public expenditure in India.
8. Expansion of Administrative Machinery : Rapid population growth and economic development have necessitated the expansion of administrative machinery, increasing spending on police, tax administration, and public sector enterprises.
9. Development Projects : The government undertakes large-scale development projects, such as irrigation, steel, heavy machinery, power, and telecommunications, which involve substantial capital and revenue expenditure.
10. Industrialization : Establishing key industries requires significant capital investment, with returns often realized only in the long term. Governments play a critical role in setting up such industries and investing in infrastructure, such as transport, communication, and power, to support industrial growth.

78. Define public expenditure.

Ans : MAIN 2017

Public expenditure refers to the spending undertaken by the government for its own operations as well as to deliver various benefits to society and support the economy.

79. Write the meaning of revenue expenditure.

Ans : COMP 2019

Revenue expenditure refers to government spending that neither creates assets nor reduces liabilities. Examples include expenses on old-age pensions, salaries, and other recurring operational costs.

80. What is capital expenditure?

Ans : SQP 2015

Capital expenditure refers to government spending that either results in the creation of assets or leads to a reduction in liabilities. Examples include expenditures on constructing national highways, building dams, and repaying loans..

81. Define public expenditure.

Ans : COMP 2022

Public expenditure refers to the spending undertaken by the government for its own functioning and to deliver various benefits to society and the economy.

82. Explain any one type of public debt.

Ans : COMP 2020

Unproductive public debt refers to government borrowings utilized for projects that do not yield direct revenue or economic returns. Examples include financing wars or expenditures on flood control measures.

83. With the help of an example, explain the term productive debt.

Ans : COMP 2018

Productive debts are borrowings utilized by the government for projects that generate income. Examples : Construction of railways, irrigation systems, power projects, and establishing heavy industries such as iron, steel, cement, and fertilizer production.

84. Name any two sources of external debt for India.

Ans : MAIN 2018,2014

(i) World Bank
(ii) IMF
(iii) IDA
(iv) USA
(v) OPEC
(vi) Russia Federation

85. Why is India considered to be in a virtual debt trap?

Ans : SQP 2018

India is often seen as being in a virtual debt trap because the government relies on borrowing to fulfill its interest payment obligations on existing debt.

86. What is meant by unproductive public debt?

Ans : MAIN 2017

Unproductive public debt refers to government borrowings used for projects that do not directly generate revenue. For example, financing wars or expenditures on controlling floods.

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57. **Statement 1 :** The increase in public expenditure in India is attributed to rising population and urbanization.

Statement 2 : Public expenditure on welfare schemes and subsidies has no significant impact on economic growth.

(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2006

(a) Statement 1 is true and Statement 2 is false.
Public expenditure increases due to rising population, urbanization, and welfare programs. Welfare schemes significantly contribute to economic growth by improving living standards and infrastructure.

58. "Public expenditure refers to the expenses incurred by the government to meet the needs of its citizens and achieve economic goals." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2007

(i) True
Public expenditure includes government spending on public services, infrastructure, welfare programs, and other activities for economic development.

59. "Revenue expenditure refers to government spending on infrastructure projects like highways and bridges." Select the appropriate option :
(i) True
(ii) False

Ans : COMP 2008

(ii) False
Revenue expenditure involves recurring expenses for running government services, such as salaries and subsidies. Infrastructure projects fall under capital expenditure.

60. "Capital expenditure leads to the creation of assets and includes spending on public infrastructure." Select the appropriate option :
(i) True
(ii) False

Ans : SQP 2009

(i) True
Capital expenditure is used for asset creation and long-term investments, like building roads, schools, and hospitals.

61. "An increase in government spending on education and healthcare reflects revenue expenditure." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2010

(i) True
Spending on education and healthcare are recurring expenses required for providing essential services and thus classified as revenue expenditure.

62. "One reason for the growth of public expenditure in India is the increased need for social welfare programs." Select the appropriate option :
(i) True
(ii) False

Ans : COMP 2011

(i) True
Public expenditure has grown due to rising demands for welfare schemes, poverty alleviation programs, and social security.

63. "India's public expenditure has grown due to economic development projects and population growth." Select the appropriate option :
(i) True
(ii) False

Ans : SQP 2012

(i) True
Population growth and the need for economic infrastructure like transportation, education, and healthcare have significantly contributed to increased public spending.

64. "Public debt refers to the borrowing by the government to meet its expenditure needs." Select the appropriate option :
(i) True
(ii) False

Ans : MAIN 2013

(i) True
Public debt includes loans and borrowings by the government from domestic and international sources to cover deficits.

65. "Internal public debt refers to loans taken by the government from international organizations like

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Ans : SQP 2010

(b) Internal debt.
Internal debt refers to borrowing by the government from domestic sources such as banks, financial institutions, or the public through bonds and loans.

37. Debt borrowed by the government from foreign institutions or governments is classified as what?"
(a) Internal debt.
(b) External debt.
(c) Public expenditure.
(d) Tax revenue.

Ans : MAIN 2011

(b) External debt.
External debt is money borrowed from foreign governments, international institutions like the World Bank, or foreign investors to fund development projects or bridge fiscal deficits.

38. Which type of public expenditure is incurred for education, healthcare, and subsidies?"
(a) Capital expenditure.
(b) Revenue expenditure.
(c) Non-tax expenditure.
(d) Developmental expenditure.

Ans : COMP 2012

(b) Revenue expenditure.
Revenue expenditure includes recurring expenses like education, healthcare, and subsidies that are essential for maintaining public services without creating long-term physical assets.

39. Construction of a new metro rail project is an example of which type of public expenditure?"
(a) Revenue expenditure.
(b) Capital expenditure.
(c) Non-tax revenue.
(d) Operational expenditure.

Ans : SQP 2013

(b) Capital expenditure.
Capital expenditure involves spending on long-term infrastructure projects, such as metro rails, which contribute to economic development and create future benefits.

40. One of the reasons for the increase in public expenditure in India is:"
(a) Reduction in welfare programs.
(b) Privatization of industries.
(c) Growing population and urbanization.
(d) Decrease in infrastructure investment.

Ans : MAIN 2014

(c) Growing population and urbanization.
India's growing population and urbanization have increased the demand for infrastructure, education, healthcare, and welfare programs, leading to a rise in public expenditure.

41. "A short-term loan taken by the government to manage its fiscal deficit is an example of:"
(a) Long-term debt.
(b) External debt.
(c) Internal debt.
(d) Public revenue.

Ans : COMP 2015

(c) Internal debt.
Internal debt includes short-term loans taken domestically to manage fiscal deficits or meet immediate financial needs, often through bonds or treasury bills.

42. "The total borrowing of the government from both domestic and foreign sources is referred to as:"
(a) Public expenditure.
(b) Public debt.
(c) Fiscal deficit.
(d) Non-tax revenue.

Ans : SQP 2016

(b) Public debt.
Public debt encompasses all borrowing by the government from domestic (internal) and foreign (external) sources to fund development, welfare programs, or bridge fiscal deficits.

43. Mr. Sharma explained that 'public expenditure refers to the spending by the government on various activities to fulfill its objectives.' What is the primary purpose of public expenditure?
(a) To increase private profits
(b) To meet social and economic goals
(c) To accumulate national wealth
(d) To control private sector activities

Ans : COMP 2017

(b) To meet social and economic goals
Public expenditure is the government's spending to achieve developmental goals such as infrastructure development, poverty alleviation, education, and healthcare.

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72. Explain any two causes for the growth of public expenditure.

Ans : SQP 2024

Causes of Growth of Public Expenditure :

(i) Growth of democracy : As democratic principles expand, there is a heightened focus on delivering public services and welfare programs to address the diverse needs of the population. This increased emphasis results in a rise in public expenditure.

(ii) Increase in defence expenditure : Geopolitical tensions and global security challenges demand greater investment in defence to safeguard national security and protect against potential threats. This necessity contributes significantly to the growth of public expenditure.

(iii) Economic and social infrastructure : Investments in critical infrastructure like roads, bridges, schools, and healthcare facilities are essential for promoting economic progress and social development. Governments allocate substantial funds to these sectors, leading to an increase in public expenditure.

73. What are funded debts?

Ans : COMP 2024

Funded debt refers to money that the government borrows and is obligated to repay over an extended period, typically exceeding one year. It is categorized as long-term debt. To ensure timely repayment, the government establishes a dedicated fund specifically for this purpose, which is why it is termed "funded debt."

74. Explain the term voluntary debt.

Ans : MAIN 2023

Voluntary debt refers to the borrowing undertaken by the government where citizens willingly subscribe to government loans. Such debts are raised voluntarily from the public.

75. Define the term public debt.

Ans : SQP 2023

Public debt refers to the total borrowing by the government from internal and external sources to address its fiscal deficit. The government resorts to borrowing when its current revenue is insufficient to meet public expenditure.

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76. Give two points of difference between revenue and capital expenditure.

Ans : COMP 2020,2021

Basis	**Revenue Expenditure**	**Capital Expenditure**
Nature of Spending	Involves day-to-day operational and maintenance expenses.	Involves spending on creating or acquiring long-term assets.
Impact on Assets and Liabilities	Does not create assets or reduce liabilities; used for immediate needs.	Leads to the creation of assets or reduction of liabilities, contributing to long-term growth.

77. State any two reasons for the growth of public expenditure in a country like India in recent times.

Ans : SQP 2019,2016,2014

1. Development Programs : Many underdeveloped countries have launched various economic development programs, focusing on infrastructure like transport, communication, and power. This has significantly contributed to the rise in public expenditure.
2. Urbanization : The increasing trend of urbanization has led to higher government spending on civil administration, education, public health, water supply, parks, and other urban amenities.
3. Rising Price Levels : Inflation has resulted in increased public expenditure, as governments, like private individuals, need to purchase goods and services at higher market prices.
4. Population Growth : The growing population has compelled governments to spend more to meet the rising needs of their citizens. Public expenditure often increases proportionally with population growth.
5. Welfare State : Modern governments function as welfare states, incurring significant expenditures on social welfare programs, including social insurance, unemployment relief, free medical aid, and free education, to enhance socioeconomic well-being.

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(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 200\2

(a) Both A and R are true, and R is the correct explanation of A.
Capital expenditure focuses on infrastructure and long-term assets, directly contributing to a country's economic development. The examples mentioned clarify its role.

25. **Assertion (A) :** Public expenditure in India has grown significantly over the years.
Reason (R) : The growth of public expenditure in India is driven by population growth, poverty alleviation programs, and infrastructure development.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2001

(a) Both A and R are true, and R is the correct explanation of A.
Increased government spending on social programs, infrastructure, and public welfare due to rising population and poverty has led to significant growth in India's public expenditure.

26. **Assertion (A) :** Public debt is classified into internal debt and external debt based on its source.
Reason (R) : Internal debt is borrowed from domestic sources, while external debt is borrowed from foreign sources like international banks or countries.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2000

(a) Both A and R are true, and R is the correct explanation of A.
Public debt is categorized by source; internal debt is from domestic entities, while external debt is from international lenders, clearly defining the classification.

27. **Assertion (A) :** Public debt is a critical tool for financing developmental projects in developing countries.
Reason (R) : Governments in developing countries often lack sufficient tax revenues to fund large-scale infrastructure and welfare programs.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2001

(a) Both A and R are true, and R is the correct explanation of A.
Public debt allows governments to finance large-scale projects despite limited tax revenues, making it an essential tool for economic development in developing nations.

28. Study the relationship in the first pair of terms and complete the second pair.
(i) Revenue Expenditure : Does not create assets.
(ii) Capital Expenditure : _ _ _ _ _ _ _ _.
(a) Does not involve repayment
(b) Creates long-term assets
(c) Involves regular maintenance
(d) Focuses on consumption

Ans : COMP 2002

(b) Creates long-term assets
Capital expenditure is spent on building assets like infrastructure, machinery, and buildings, which contribute to long-term economic growth.

29. Study the relationship in the first pair of terms and complete the second pair.
(i) Public Expenditure : Focuses on economic and social welfare.
(ii) Public Debt : _ _ _ _ _ _ _ _.
(a) Government borrowing to finance deficits
(b) Expenditure on public health
(c) Revenue earned through taxes
(d) Government surplus collection

Ans : MAIN 2003

(a) Government borrowing to finance deficits
Public debt refers to loans and borrowings taken by the government to meet budgetary deficits and

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87. Distinguish between redeemable debt and irredeemable debt.

Ans : 2015,2012

Basis	Redeemable Debt	Irredeemable Debt
Definition	Loans that the government promises to repay at a specific future date. The government makes arrangements for repayment, making them terminable loans.	Loans for which the government does not specify a repayment date but agrees to pay regular interest on the bonds issued.
Duration	Generally for a short duration.	Typically for a long duration.

88. Distinguish between internal and external debt.

Ans : SQP 2011

Basis	Internal Debt	External Debt
Definition	Debt owed to locally owned banks in the local currency.	Debt incurred by borrowing from foreign bankers or institutions abroad.
Owed To	Owed by the nation to its own citizens.	Owed by the nation to foreign creditors.
Instruments	Includes market loans, bonds, treasury bills, and ways and means advances.	Includes multilateral loans, bilateral loans, and loans from institutions like the World Bank.
Repayment Currency	Repayable only in domestic currency.	Repayable in foreign currency.

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89. Explain the term internal debt.

Ans : MAIN SQP 2021

Internal debt refers to the funds that the government borrows from domestic sources, including individuals, banks, businesses, and other entities within the country. This debt is repayable exclusively in the domestic currency.

90. Define public debt.

Ans : COMP 2013

Public debt refers to a part of the Union Government's total borrowings, which includes market loans, special bearer bonds, treasury bills, and special loans or securities issued by the Reserve Bank of India.

91. State and explain the type of public expenditure associated with this project.



Ans : COMP 2015

Type of Public Expenditure : Capital Expenditure
The construction of a metro rail is a long-term investment that enhances the productive capacity of the economy, classified as capital expenditure. It involves creating physical assets that benefit the public over time.

92. "Capital expenditure creates long-term assets, while revenue expenditure covers recurring expenses. Justify this statement with two suitable examples."

Ans : SQP 2016

(i) Capital Expenditure : This involves government spending on long-term assets like roads, bridges, or metro rail systems, which enhance productivity and facilitate economic growth. For example, the construction of highways boosts transportation and trade efficiency.

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(ii) Revenue Expenditure : This covers recurring expenses such as salaries paid to government employees, which ensure smooth administration, and subsidies, which support the vulnerable population. Unlike capital expenditure, revenue expenditure does not create assets but sustains ongoing operations.

93. "Internal and external debt play a crucial role in meeting government financial needs. Justify this statement with two examples of each type of debt."

Ans : MAIN 2017

(i) Internal Debt : The government raises funds domestically by issuing bonds purchased by individuals or borrowing from the Reserve Bank of India. These loans are repayable in the local currency and avoid foreign exchange risks.

(ii) External Debt : Borrowing from international institutions like the World Bank finances large-scale projects like rural electrification, while loans from the IMF help resolve balance of payments issues. External debt is repayable in foreign currency, making it vulnerable to exchange rate changes.

94. "The growth of public expenditure in India is driven by both economic and social factors. Justify this statement with two reasons."

Ans : COMP 2018

(i) Economic Factors : Increased investment in infrastructure like highways and ports has enhanced productivity and connectivity. Subsidies to industries, particularly agriculture, stabilize production and support economic growth.

(ii) Social Factors : Rising public expenditure supports welfare programs like healthcare initiatives (e.g., Ayushman Bharat) and educational schemes (e.g., Samagra Shiksha), aimed at improving quality of life and reducing inequality.

95. "Explain how public expenditure can be classified into productive and unproductive expenditure. Justify your explanation with two examples."

Ans : MAIN 2019

(i) Productive Expenditure : Spending on projects like dams or industrial parks creates assets that generate economic returns, such as irrigation or industrial development, benefiting productivity.

(ii) Unproductive Expenditure : Funds spent on war or disaster relief, though necessary, do not enhance productive capacity or generate returns, making them a financial burden.

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96. Which of the following would contribute to the growth of public expenditure in India? Explain with reasons.

(i) Increasing investment in defense equipment.

(ii) Spending on free education schemes for underprivileged children.

Ans : COMP 2020

(i) Investment in defense equipment : Public expenditure grows due to rising national security needs, requiring significant spending on defense.

(ii) Free education schemes : This reflects the growth in public expenditure aimed at social welfare and reducing inequality through education.

97. Classify the following as internal or external debt, giving valid reasons :

(i) Borrowing from domestic banks to fund infrastructure projects.

(ii) Loan taken from the Asian Development Bank for renewable energy projects.

Ans : MAIN 2021

(i) Borrowing from domestic banks : This is internal debt as it is raised within the country and involves repayment in domestic currency.

(ii) Loan from the Asian Development Bank : This is external debt because it is borrowed from a foreign institution and repayable in foreign currency.

98. Identify which of the following is an example of productive or unproductive debt, providing justification :

(i) Borrowing funds to construct a railway network.

(ii) Loan taken to fund disaster relief during floods.

Ans : SQP 2022

(i) Railway network construction : This is productive debt as it generates economic returns by improving transportation and connectivity.

(ii) Disaster relief funding : This is unproductive debt because it does not result in asset creation or generate economic returns, though it serves an immediate need.

99. Justify the following statement with any two valid arguments :
"Capital expenditure contributes more to the long-term economic growth of a country than revenue expenditure."

Ans : COMP 2023

(i) Asset Creation : Capital expenditure involves building infrastructure like roads and bridges, which enhances the productive capacity of the economy over time.
(ii) Economic Multiplier Effect : Investments in capital projects stimulate job creation and increase economic activity in multiple sectors.

100. Justify the following statement with any two valid arguments :
"Revenue expenditure is essential for the smooth functioning of government services."

Ans : SQP 2024

(i) Operational Continuity : Salaries of government employees and maintenance of public services ensure day-to-day operations.
(ii) Support for Welfare Programs : Subsidies and healthcare spending provide immediate relief to citizens, maintaining social welfare.

101. Justify the following statement with any two valid arguments :
"External debt poses a higher risk to the economy compared to internal debt."

Ans : MAIN 2000

(i) Currency Fluctuations : External debt is repayable in foreign currencies, making it vulnerable to exchange rate fluctuations.
(ii) Dependency on Foreign Entities : Borrowing from international institutions increases dependency and reduces economic sovereignty.

102. Justify the following statement with any two valid arguments :
"Public expenditure has significantly increased in India due to rising social welfare needs."

Ans : SQP 2001

(i) Healthcare and Education : Programs like Ayushman Bharat and Samagra Shiksha require substantial government spending to address growing population needs.
(ii) Poverty Alleviation : Initiatives like MGNREGA aim to reduce unemployment and poverty, contributing to increased public expenditure.

103. Justify the following statement with any two valid arguments :
"Compulsory debt is used only in extraordinary circumstances by the government."

Ans : COMP 2002

(i) Emergency Funding : Compulsory debt is imposed during crises like wars or natural disasters when voluntary funding is insufficient.
(ii) No Voluntary Participation : It does not rely on public willingness and ensures immediate financial resources for urgent needs.

FIVE MARKS QUESTIONS

104. (i) What is the meaning of revenue expenditure?
(ii) Explain any three reasons for the growth of public expenditure.

Ans : MAIN 2023

(i) Meaning of Revenue Expenditure : Revenue expenditure refers to government spending that does not result in asset creation or liability reduction. For example, subsidies and infra structural development are classified as revenue expenditures.
(ii) Three Reasons for Public Expenditure:
(a) Welfare : Governments often increase spending on welfare initiatives, such as subsidies, salaries for employees, and public services, to enhance citizens' quality of life.
(b) Economic Growth : Public expenditure helps in infra structural development, thereby stimulating economic progress.
(c) Repayment of Debt : Governments may increase spending to repay loans taken in the past, thus adding to public expenditure.

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105. Define public expenditure. Explain two ways by which it promotes economic development.

Ans : SQP 2020,2018,2017,2015,2012

Public expenditure refers to the spending by the government on various activities, including administration, development projects, welfare programs, and infrastructure, to ensure the socioeconomic growth of a country.
Ways to Promote Economic Development:

Ans : COMP 2015

(i) Active Participation : Citizens should engage in public forums and community meetings to discuss the allocation and impact of welfare schemes.
(ii) Monitoring Implementation : Local communities can monitor the progress of welfare projects to ensure funds are utilized as intended.
(iii) Seeking Information : Using tools like the Right to Information (RTI) Act, citizens can demand transparency in fund allocation and spending.
(iv) Raising Awareness : Educating others about the benefits and provisions of welfare schemes helps prevent misuse and exploitation.
(v) Reporting Mismanagement : Citizens should report any corruption or inefficiencies to the relevant authorities for corrective action.

115. Considering the significant growth in public expenditure on infrastructure development in India, what are the essential roles of local governments and communities in ensuring that these projects are completed efficiently and equitably?

Ans : SQP 2014

(i) Identifying Local Needs : Local governments should prioritize projects that address the specific needs of their communities, such as roads, schools, or water supply systems.
(ii) Facilitating Land Acquisition : Communities can assist in resolving disputes and expediting land acquisition processes for infrastructure projects.
(iii) Monitoring Progress : Regular oversight by local authorities ensures timely completion and prevents resource mismanagement.
(iv) Promoting Inclusivity : Ensuring that marginalized groups benefit from the projects helps achieve equitable development.
(v) Encouraging Public Participation : Community involvement in decision-making processes fosters transparency and accountability.

116. In light of the government's reliance on voluntary debt like bonds and securities, how can the public participate effectively in funding national development while ensuring their rights as investors are protected?

Ans : MAIN 2013.2015,2020,2024

(i) Investing in Government Bonds : Citizens can invest in bonds, contributing to the government's funding for infrastructure and social projects.
(ii) Understanding Investment Terms : Educating themselves about bond terms, returns, and risks ensures informed decision-making.
(iii) Seeking Transparency : Demanding clear information on how funds raised through bonds are utilized fosters trust.
(iv) Holding the Government Accountable : Investors can engage in discussions and forums to ensure the government delivers on its promises.
(v) Encouraging Wider Participation : Promoting awareness about bond schemes among peers can enhance public participation in national development.

117. The following table shows the annual public expenditure (in crores) of a government on different sectors.

Year	Education (Rs)	Healthcare (Rs)	Infrastructure (Rs)	Total Public Expenditure (Rs)
2019	200	300	(i)	1200
2020	250	(ii)	400	1400
2021	300	450	500	(iii)

Based on the table, answer the following :
(i) Calculate the public expenditure on infrastructure in 2019 (i).
(ii) Find the healthcare expenditure in 2020 (ii).
(iii) Determine the total public expenditure for 2021 (iii).
(iv) Analyze the trend of public expenditure from 2019 to 2021 and identify which sector has the highest growth.
(v) Mention any one reason for the increase in public expenditure on education.

Ans : COMP 2024 2021

(i) Public expenditure on infrastructure in 2019 (i) = Total expenditure (Education + Healthcare) = 1200 (200 + 300) = 700 crores.
(ii) Healthcare expenditure in 2020 (ii) = Total expenditure (Education + Infrastructure) = 1400 (250 + 400) = 750 crores.
(iii) Total public expenditure for 2021 (iii) = Education + Healthcare + Infrastructure = 300 + 450 + 500 = 1250 crores.
(iv) From 2019 to 2021, public expenditure shows consistent growth across all sectors, with

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(ii) Unproductive Debt : Borrowings used for purposes that do not contribute to economic productivity, such as funding wars or famine relief. These are not self-liquidating and pose a financial burden.
(iii) Internal Debt : Loans raised from domestic sources, including individuals, banks, and businesses, which are repaid in the national currency.
(iv) External Debt : Borrowings from foreign sources, such as governments or international institutions like the IMF and World Bank, repayable in foreign currencies.
(v) Voluntary Debt : Loans willingly provided by individuals or institutions in forms such as market loans and government bonds.
(vi) Compulsory Debt : Loans imposed during extraordinary circumstances, such as wars or national crises, which are rarely enforced.

110. Distinguish between voluntary debt and compulsory debt.

Ans : MAIN 2013

Voluntary Debt	Compulsory Debt
These loans are provided by the public on a voluntary basis.	These loans are forcibly collected from the public.
The rate of interest is usually higher.	The rate of interest may be low.

111. Explain funded and unfunded debt.

Ans : SQP 2019

(i) Funded Debt : This refers to long-term borrowing with a duration exceeding one year. It involves securities that are traded on the stock exchange. The government is obligated to pay a fixed interest on these loans, while the principal amount is repaid at its discretion. Creditors (bondholders) are entitled only to the interest payments.
(ii) Unfunded Debt : This pertains to short-term borrowing, usually repayable within a year. It is typically incurred as a temporary solution to address immediate financial needs, often with the expectation of future public revenue to cover it.

112. In the context of increasing public expenditure in India, what are the primary responsibilities of the government in ensuring that revenue and capital expenditures are utilized effectively to promote economic growth and social welfare?

Ans : MAIN 2020

(i) Efficient Allocation of Resources : The government must ensure that revenue expenditure is directed towards essential services such as education, healthcare, and public administration, while capital expenditure focuses on infrastructure development to boost productivity.
(ii) Monitoring and Evaluation : Regular audits and evaluations should be conducted to ensure funds are used effectively and projects are completed on time.
(iii) Transparency and Accountability : Public disclosure of expenditure details ensures transparency and builds trust among citizens.
(iv) Social Equity : Allocating funds to programs that benefit marginalized communities promotes social welfare and reduces inequalities.
(v) Reducing Wasteful Spending : Strict measures should be taken to minimize inefficiencies and corruption in government spending.

113. With the rise in external debt incurred by the government, what measures should the government prioritize to ensure sustainable repayment and avoid economic dependency on foreign institutions?

Ans : SQP 2016

(i) Prudent Borrowing : The government should only borrow for projects that ensure long-term economic returns, such as infrastructure and energy development.
(ii) Boosting Exports : Increasing exports can improve foreign exchange reserves, ensuring timely repayment of external debt.
(iii) Efficient Utilization of Borrowed Funds : Loans must be used for productive purposes to enhance the country's revenue-generating capacity.
(iv) Diversification of Debt Sources : Avoiding over-reliance on a single lender reduces risks and enhances financial flexibility.
(v) Strengthening Domestic Economy : Promoting domestic industries and reducing import dependency minimizes future borrowing needs.

114. As public expenditure on welfare schemes like healthcare and education increases, how can citizens actively contribute to ensuring accountability and transparency in the utilization of these funds?

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(i) Development of Infrastructure : Public expenditure on infrastructure such as transport, communication, power, and irrigation facilitates industrial growth, agricultural productivity, and improved living standards, creating a foundation for economic development.

(ii) Human Capital Development : Government spending on education, healthcare, and skill development enhances the productivity of the workforce. A healthier, educated, and skilled population contributes significantly to economic growth.

(iii) Reduction of Income Inequality : Welfare programs, subsidies, and social security measures funded by public expenditure help redistribute income, reducing poverty and bridging the economic gap between different sections of society.

(iv) Encouragement of Industrialization : Public expenditure supports the establishment of key industries and promotes research and development. It also provides incentives, subsidies, and financial support to boost industrial growth in underdeveloped regions.

(v) Stabilization of the Economy : Government spending helps stabilize the economy by controlling inflation, reducing unemployment, and boosting demand during economic slowdowns. This ensures consistent growth and avoids major economic fluctuations.

Public expenditure thus acts as a crucial tool for fostering long-term economic development and improving the quality of life for citizens.

106. Explain the meaning of capital expenditure and revenue expenditure.

Ans : SQP 2005

(i) Capital Expenditure : Capital expenditure refers to the spending by the government on the acquisition of assets or investments that lead to the creation of infrastructure or long-term benefits for the economy. It includes expenses on projects like constructing highways, setting up industries, building dams, or purchasing equipment. Such expenditures either increase the government's assets or reduce its liabilities.

(ii) Revenue Expenditure : Revenue expenditure involves the government's spending on day-to-day operations and maintenance activities that do not result in the creation of assets or reduction of liabilities. Examples include expenditures on salaries, pensions, subsidies, interest payments, and recurring operational costs. These are essential for running the government machinery and providing public services.

107. (i) Define Public Debt.
(ii) What are Redeemable Debts?
(iii) Mention two examples of unproductive debt.

Ans : COMP 2019

(i) Public Debt : Refers to loans acquired by the government either domestically or from foreign sources.

(ii) Redeemable Debt : Debt that the government repays on a predetermined date, with periodic interest payments. The principal amount is returned to the lenders upon maturity.

(iii) Examples of Unproductive Debt :
(a) Funding a war
(b) Covering a budget deficit

108. Explain the following:
(i) Internal and External Debt
(ii) Productive and Unproductive Debt

Ans : MAIN 2016

(i) (a) Internal Debt refers to the government borrowing funds from domestic individuals or institutions, such as through the issuance of government bonds.
(b) External Debt involves the government borrowing funds from foreign governments, international institutions, or organizations like the IMF or World Bank.

(ii) (a) Productive Debt is utilized for revenue-generating activities, such as constructing infrastructure like roads and bridges.
(b) Unproductive Debt is allocated to non-revenue-generating purposes, such as funding wars or disaster relief efforts like flood control.

109. Define Public Debt. Explain four types of public debt.

Ans : COMP 2014

Public Debt refers to the borrowing undertaken by the government to meet its financial requirements.
Types of Public Debt :

(i) Productive Debt : Funds borrowed for projects that enhance the economy's productive capacity, such as infrastructure development. These loans are self-liquidating and repaid over the lifespan of the assets created.

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healthcare having the highest growth due to increased funding for health programs and pandemic-related measures.

(v) Increasing public expenditure on education reflects the government's focus on improving literacy, skill development, and human capital for economic growth.

118. The following table shows the government's public debt for different years (in crores) :

Year	Internal Debt (Rs)	External Debt (Rs)	Total Public Debt (Rs)
2018	1500	(i)	2000
2019	(ii)	700	2200
2020	1800	800	(iii)

Based on the table, answer the following :

(i) Calculate the external debt for 2018 (i).

(ii) Determine the internal debt for 2019 (ii).

(iii) Find the total public debt for 2020 (iii).

(iv) Examine the trend of internal and external debt over the years and discuss their impact on the economy.

(v) Mention any one risk associated with excessive external debt.

Ans : SQP 2011

(i) External debt for 2018 (i) = Total debt Internal debt = 2000 1500 = 500 crores.

(ii) Internal debt for 2019 (ii) = Total debt External debt = 2200 700 = 1500 crores.

(iii) Total public debt for 2020 (iii) = Internal debt + External debt = 1800 + 800 = 2600 crores.

(iv) The data shows a consistent increase in both internal and external debt, indicating a growing reliance on borrowing to meet fiscal needs. While internal debt poses less risk due to repayment in local currency, rising external debt can expose the economy to currency fluctuations and foreign dependency.

(v) Excessive external debt increases the risk of currency depreciation, making repayments more expensive and straining foreign exchange reserves.

119. The following table shows the allocation of public expenditure for a government's welfare schemes (in crores) :

Welfare Scheme	2019 (Rs)	2020 (Rs)	2021 (Rs)	Total Expenditure (Rs)
Rural Employment	(i)	200	300	700
Healthcare Subsidies	150	(ii)	250	600
Education Subsidies	200	250	(iii)	750

Answer the following questions :

(i) Find the public expenditure on rural employment in 2019 (i).

(ii) Determine the healthcare subsidies for 2020 (ii).

(iii) Calculate the education subsidies for 2021 (iii).

(iv) Discuss the importance of allocating public expenditure toward rural employment.

(v) Explain how increasing subsidies in healthcare can improve the country's economic productivity.

Ans : COMP 2010.2009,2008,2005

(i) Public expenditure on rural employment in 2019 (i) = Total expenditure (2020 + 2021 expenditure) = 700 (200 + 300) = 200 crores.

(ii) Healthcare subsidies for 2020 (ii) = Total expenditure (2019 + 2021 expenditure) = 600 (150 + 250) = 200 crores.

(iii) Education subsidies for 2021 (iii) = Total expenditure (2019 + 2020 expenditure) = 750 (200 + 250) = 300 crores.

(iv) Allocating public expenditure toward rural employment generates income for rural households, reduces poverty, and boosts rural economic activities, thereby supporting balanced regional development.

(v) Increasing subsidies in healthcare improves the workforce's health, reduces absenteeism, and enhances productivity, resulting in long-term economic benefits.

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129. Read the extract and answer the following questions :
The government borrows funds from domestic banks and issues bonds to raise money for building schools in rural areas. The repayment of the loans is planned over a long period.
(i) Identify the type of public debt incurred in this situation.
(ii) Explain any four characteristics of the type of public debt mentioned in (i).

Ans : COMP 2000

(i) The type of public debt is internal debt.
(ii) Characteristics :
(a) Raised Domestically : Internal debt refers to loans raised within the country, such as borrowing from banks or issuing bonds to local investors. This ensures funds remain within the domestic economy.
(b) Repayable in Local Currency : Unlike external debt, internal debt does not carry the risk of foreign exchange fluctuations, as repayments are made in the national currency.
(c) Promotes Local Investment : Issuing bonds encourages citizens and institutions to invest in government projects, strengthening national infrastructure.
(d) Supports Development Projects : Internal debt finances essential projects like building schools, which improve education, create jobs, and contribute to social welfare.

130. Read the extract and answer the following questions :
A government program provides subsidies for solar panel installations in rural households. These funds are allocated from the government's annual revenue to promote renewable energy.
(i) Identify the type of expenditure involved in this program.
(ii) Explain any four characteristics of this type of expenditure.

Ans : SQP 2021

(i) The type of expenditure is revenue expenditure.
(ii) Characteristics :
(a) Recurring Nature : Revenue expenditure involves regular allocations to promote renewable energy, such as annual subsidies for solar panels.
(b) Short-Term Benefits : The subsidies make solar panels affordable for rural households, providing immediate relief and encouraging clean energy adoption.
(c) Environmental Impact : By promoting solar energy, the government reduces dependency on fossil fuels, contributing to environmental sustainability and climate goals.
(d) Non-Creation of Physical Assets : Unlike capital expenditure, revenue expenditure does not result in the creation of government-owned assets, but it serves to promote public welfare and environmental goals.

131. Read the extract and answer the following questions :
The government launches a scheme to provide free midday meals in government schools to improve student attendance and nutritional levels. The program involves recurring expenses for food procurement and salaries for staff.
(i) Identify the type of public expenditure involved in this program.
(ii) Explain any four reasons why this type of expenditure is essential for social and economic welfare.

Ans : COMP 2022

(i) The type of public expenditure involved is revenue expenditure.
(ii) Reasons :
(a) Improves Student Attendance : The midday meal scheme incentivise children to attend school, particularly in underprivileged areas, improving literacy rates.
(b) Addresses Malnutrition : Providing nutritious meals combats malnutrition among children, ensuring healthier and more productive future generations.
(c) Recurring Nature : The program requires continuous funding for food and staff salaries, showcasing its commitment to long-term welfare.
(d) Economic Productivity : By promoting education and health, the scheme contributes to a more skilled and capable workforce, enhancing economic growth in the long run.

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Ans : MAIN 2003

(i) The type of public expenditure incurred in this project is capital expenditure.

(ii) Characteristics :

(a) Asset Creation : Capital expenditure is directed toward the creation of long-term physical assets like bridges, roads, and dams. These assets play a critical role in boosting economic productivity by improving infrastructure and enabling smoother transportation and trade.

(b) Non-Recurring Nature : Such expenditure is usually a one-time investment made for long-term benefits, rather than a recurring expense incurred every year. For instance, constructing a bridge is a project with lasting utility.

(c) Enhances Economic Productivity : By improving transportation, the bridge reduces travel time, facilitates the movement of goods, and promotes economic activities, ultimately contributing to higher GDP growth.

(d) Generates Future Returns : While the initial cost may be high, the benefits of capital expenditure are reaped over time. The bridge will support economic activities for years, providing economic returns in the form of reduced costs and increased trade efficiency.

127. Read the extract and answer the following questions :

A government hospital has started a new vaccination drive for underprivileged children. The cost of vaccines is borne by the government, and healthcare workers are paid to carry out the campaign.

(i) Identify the type of expenditure made by the government for this initiative.

(ii) Explain any four reasons why this type of expenditure is necessary for social welfare.

Ans : COMP 2002

(i) The type of expenditure is revenue expenditure.

(ii) Reasons :

(a) Immediate Public Health Benefits : Revenue expenditure ensures the timely provision of vaccines to underprivileged children, addressing immediate healthcare needs and preventing the spread of diseases.

(b) Recurring Nature : The expenses incurred in purchasing vaccines and paying healthcare workers are regular, reflecting the government's commitment to sustaining essential healthcare services.

(c) Promotes Social Equity : This expenditure targets vulnerable sections of society, ensuring that children from economically weaker backgrounds have access to life-saving vaccinations.

(d) Supports Economic Growth : A healthy population is essential for sustained economic development. By preventing diseases, the government reduces healthcare costs in the long term and improves workforce productivity.

128. Read the extract and answer the following questions :

The government has announced a scheme to build irrigation canals in rural areas to support farmers. They allocate funds for construction, hire laborers, and purchase necessary machinery.

(i) Name the type of public expenditure associated with this scheme.

(ii) Highlight any four characteristics of the type of expenditure mentioned in (i).

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Ans : MAIN 2001

(i) The type of public expenditure is capital expenditure.

(ii) Characteristics :

(a) Supports Long-Term Agricultural Growth : Irrigation canals provide a stable water supply to farmers, enabling them to increase crop yields and reduce dependency on rain-fed agriculture.

(b) One-Time Investment : Building canals requires significant initial funding but provides benefits for decades, making it a one-time expenditure for sustainable agricultural development.

(c) Encourages Rural Development : By improving irrigation, capital expenditure directly enhances the quality of life in rural areas, reducing urban-rural disparities.

(d) Multiplier Effect : This expenditure generates employment during construction and boosts the rural economy by increasing farm output and related industries.

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CASE BASED QUESTION

120. By giving valid reasons, explain which of the following will be considered as revenue expenditure of the government :
(i) Subsidies provided to farmers for fertilizers.
(ii) Setting up a new dam for irrigation purposes.

Ans : SQP 2009

(i) Subsidies provided to farmers : This is revenue expenditure as it is a recurring cost to support agricultural development and does not create long-term assets.

(ii) Setting up a dam : This is not revenue expenditure; it is classified as capital expenditure because it involves the creation of a long-term asset that enhances irrigation and productivity.

121. Rajesh, a student, and Anil, a businessman, both visited a government museum, but they were charged different entry fees. Give reasons for the government charging different prices to different visitors.

Ans : COMP 2008

(i) Subsidized Rates for Certain Groups : Students often receive discounts as part of government initiatives to promote education and cultural exposure.

(ii) Revenue Generation from Other Groups : Higher fees for businessmen or general visitors help compensate for subsidies offered to certain groups, ensuring operational costs are covered.

122. Ravi, an entrepreneur, and Sita, a farmer, both borrowed money from a government bank. However, the interest rates they were charged were different. Explain the reasons behind the variation in interest rates.

Ans : MAIN2007

(i) Sector-Specific Support : Farmers often receive lower interest rates to encourage agricultural productivity and ensure food security.

(ii) Market-Based Rates : Entrepreneurs are charged market-linked rates to align with the risk and return of business ventures.

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123. The government has announced different electricity rates for urban households and rural households. Justify the reasons for charging different rates.

Ans : SQP 2006

(i) Promoting Rural Development : Lower rates for rural households ensure afford ability and support rural electrification.

(ii) Cost Recovery in Urban Areas : Higher rates for urban households help recover costs associated with advanced infrastructure and higher consumption levels.

124. An international tourist and a local resident both visited a government wildlife sanctuary. However, the entry fees for the tourist were significantly higher. Explain why the government charges different fees for these two groups.

Ans : COMP 2005

(i) Foreign Exchange Earnings : Higher charges for international tourists contribute to generating foreign revenue for the government.

(ii) Promoting Domestic Tourism : Lower rates for local residents encourage them to visit and appreciate natural resources, fostering domestic tourism.

125. Ajay, a salaried employee, and Arun, a senior citizen, both traveled on a government bus. Arun was offered a discounted ticket. Explain the reasons for such differential pricing.

Ans : SQP 2004

(i) Social Welfare for Senior Citizens : Discounts for senior citizens reflect government efforts to provide affordable travel as part of social welfare policies.

(ii) Revenue Balancing : The full fare from salaried employees ensures the government offsets the discounts provided to vulnerable groups.

126. Read the extract and answer the following questions :
The government decides to construct a large bridge over a river to improve transportation and trade. They allocate funds for raw materials, hire engineers, and seek a loan from the World Bank to cover additional costs.
(i) Name the type of public expenditure incurred in this project.
(ii) Explain any four characteristics of the type of public expenditure mentioned in (i).

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132. Read the extract and answer the following questions :

To finance the construction of a new railway line, the government borrows funds from the Asian Development Bank and agrees to repay the loan over a 10-year period in foreign currency.

(i) Identify the type of public debt incurred in this scenario.

(ii) Explain any four characteristics of this type of public debt.

Ans : MAIN 2023

(i) The type of public debt incurred is external debt.

(ii) Characteristics :

(a) Borrowed from Foreign Entities : External debt involves loans from foreign institutions like the Asian Development Bank, often used for large-scale projects.

(b) Repayable in Foreign Currency : The government must repay the loan in foreign currency, making it susceptible to exchange rate fluctuations.

(c) Supports Infrastructure Development : External loans are often used for developmental projects like railways, which enhance economic connectivity and productivity.

(d) Potential Dependency : Over-reliance on external debt can lead to dependency on foreign lenders, requiring prudent management to ensure long-term sustainability.

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Ans : MAIN 2008

(c) Reduces purchasing power of fixed-income groups.
Inflation diminishes the purchasing power of fixed-income groups as their income remains constant, while prices of goods and services rise.

35. Demand-pull inflation benefits producers as they can sell goods at higher prices."
(a) Encourages investment.
(b) Reduces demand for goods.
(c) Decreases employment opportunities.
(d) Reduces profits of producers.

Ans : SQP 2009

(a) Encourages investment.
Demand-pull inflation benefits producers by increasing profits due to higher prices, which encourages businesses to invest in production and expand operations.

36. Ms. Priya explained that 'inflation refers to the sustained rise in the general price level of goods and services in an economy over time.' What does inflation primarily indicate?
(a) Increase in production levels
(b) Decrease in purchasing power
(c) Reduction in unemployment
(d) Stability in the economy

Ans : COMP 2010

(b) Decrease in purchasing power
Inflation reduces the value of money, causing a decrease in purchasing power as prices of goods and services rise continuously.

37. Mr. Suresh described a price index that 'measures the average change in wholesale prices of goods over a specific period.' What is this index called?
(a) Consumer Price Index (CPI)
(b) Wholesale Price Index (WPI)
(c) Inflation Rate Index
(d) Retail Price Index

Ans : MAIN 2011

(b) Wholesale Price Index (WPI)
The WPI tracks changes in the prices of goods at the wholesale level and is used as an indicator of inflation in the production and distribution stages.

38. Ms. Rekha discussed a type of inflation 'where the rise in prices is caused by an increase in production costs, such as wages and raw materials.' What is this type of inflation called?
(a) Demand-pull inflation
(b) Cost-push inflation
(c) Hyperinflation
(d) Creeping inflation

Ans : SQP 2012

(b) Cost-push inflation
Cost-push inflation occurs when the cost of production rises, leading to higher prices of goods and services, regardless of demand.

39. Mr. Arvind explained the stage of inflation where 'the rate of price increase is extremely high and uncontrollable, severely disrupting the economy.' What is this stage of inflation called?
(a) Creeping inflation
(b) Walking inflation
(c) Running inflation
(d) Hyperinflation

Ans : MAIN 2013

(d) Hyperinflation
Hyperinflation is characterized by an explosive and unsustainable rise in prices, often resulting in economic instability and loss of currency value.

40. Ms. Kavita explained the positive effect of inflation on production, stating that 'a moderate increase in prices can encourage producers to produce more.' What is the key reason for this positive effect?
(a) Increased consumer demand
(b) Higher profits for producers
(c) Decreased cost of raw materials
(d) Government subsidies

Ans : SQP 2014

(b) Higher profits for producers
Moderate inflation boosts producers' profits as they can sell goods at higher prices, incentivizing increased production and economic growth.

41. Mr. Sharma described 'a price index that measures changes in the retail prices of a fixed basket of goods and services consumed by households.' What is this index called?
(a) Consumer Price Index (CPI)
(b) Wholesale Price Index (WPI)
(c) Food Basket Index
(d) Inflation Rate Index

Ans : COMP 2015

(a) Consumer Price Index (CPI)
The CPI tracks changes in the retail prices of goods and services commonly consumed by

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MULTIPLE CHOICE QUESTION

1. Inflation means _____ rise in price.
(a) Continuous
(b) Sustainable
(c) No
(d) High

Ans : SQP 2021

(b) Sustainable
Inflation is defined as a continuous rise in the general price level of goods and services over time, leading to a reduction in the purchasing power of money.

2. Which of the following are causes of inflation in India?
(a) Deficit financing
(b) Inadequate rise in industrial production
(c) Low interest rates
(d) All of the above

Ans : MAIN 2001

(d) All of the above
Inflation in India is caused by deficit financing, as printing more money increases demand without a corresponding rise in supply. Inadequate rise in industrial production leads to supply shortages, driving up prices. Additionally, low interest rates encourage borrowing and spending, further increasing demand and fueling inflation.

3. When too much money chases too few goods, the resulting inflation is called:
(a) Deflation
(b) Cost-push inflation
(c) Demand-pull inflation
(d) Stagflation

Ans : COMP 2002

(c) Demand-pull inflation
Demand-pull inflation occurs when the demand for goods exceeds their available supply.

4. Which group suffers the most with inflation?
(a) Debtors
(b) Creditors
(c) Businessmen
(d) Holders of real assets

Ans : SQP 2003

(b) Creditors
During periods of rising prices, creditors suffer losses while debtors benefit. As the value of money declines, debtors repay the same nominal amount, but its worth in terms of goods and services is lower.

5. Demand-pull inflation is caused by:
(a) Increased money expenditure
(b) Increased cost of factors
(c) Both
(d) None

Ans : MAIN 2004

(b) Increased cost of factors
Demand-pull inflation arises from factors such as a growing economy, higher government expenditure, or an increase in external demand.

6. Which of the following are different stages of inflation?
(a) Walking
(b) Running
(c) Creeping
(d) All of the above

Ans : COMP 2005

(d) All of the above

7. Which of the following can be a reason behind cost-push inflation?
(a) Higher price of commodities
(b) Economic Growth
(c) Lower interest rates
(d) Expectation of Inflation

Ans : SQP 2006

(a) Higher price of commodities

8. When price increases due to a rise in factor prices, it is:
(a) Cost-push inflation
(b) Demand-pull inflation
(c) Stagflation
(d) None of the above

Ans : MAIN 2007

(a) Cost-push inflation
Cost-push inflation happens when prices increase due to a rise in production costs. This rise in production costs can result from higher prices for raw materials, increased wages, or similar factors.

9. What is known as the combination of stagnation and inflation?
(a) Deflation
(b) Stagflation
(c) Demand-pull inflation
(d) Cost-push inflation

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CHAPTER 8

INFLATION

SUMMARY

1. MEANING OF INFLATION

Inflation refers to a sustained increase in the general price level, which results in a decline in the purchasing power of money.

2. DEFINITIONS

1. Crowther : Inflation is a state in which the value of money is falling, i.e., prices are rising."
2. Gardner Ackley : Inflation is a persistent and significant rise in the general price level or average prices.

3. STAGES OF INFLATION

3.1 Creeping Inflation

Mild or moderate inflation where the price level gradually rises at a slow rate over a period.

3.2 Walking Inflation

Occurs when prices rise moderately, with annual inflation remaining in single digits (3-10%).

3.3 Running Inflation

Prices rise at a fast pace (10-20% per year), leading to severe consequences for the middle and poor classes. It requires strict monetary and fiscal controls.

3.4 Hyperinflation

Refers to uncontrollable and extreme price increases, often exceeding 50% per month.

4. TYPES OF INFLATION

1. Cost-Push Inflation : Caused by rising production costs, such as higher raw material prices or wages.
2. Demand-Pull Inflation : Arises when demand exceeds the available supply of goods and services.

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5. CAUSES OF COST-PUSH INFLATION

1. Rising prices of commodities.
2. Imported inflation.
3. Increased wages.
4. Higher taxes.
5. Profit-driven inflations
6. Higher food prices.
7. Natural Disasters
8. Government Regulation and Taxation

6. CAUSES OF DEMAND-PULL INFLATION

1. Economic Growth
2. Government Spending
3. Discretionary Fiscal Policy
4. Expectation of Inflation
5. Over-Expansion of the Money Supply
6. Lower Interest Rates

7. EFFECTS OF INFLATION

7.1 On Production Activities

Inflation may or may not lead to an increase in production. Initially, it can positively impact production if the economy hasn't reached full employment. However, if wages and production costs rise rapidly, it negatively affects production activities.

7.2 On Fixed Income Earners

Fixed income earners, such as salaried individuals, landlords, pensioners, and rent-earners, face difficulties as inflation erodes the value of their earnings.

7.3 On Farmers

Inflation raises the prices farmers pay for inputs faster than the prices they receive for their output, worsening the terms of trade for farmers.

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(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2013

(a) Both A and R are true, and R is the correct explanation of A.
Demand-pull inflation arises when aggregate demand outpaces supply, often driven by consumer spending, government policies, or investment growth.

15. **Assertion (A) :** Inflation has a negative effect on people with fixed incomes, reducing their purchasing power.
Reason (R) : Fixed income earners receive a constant amount of money, while prices of goods and services rise during inflation.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2014

(a) Both A and R are true, and R is the correct explanation of A.
Inflation erodes the real value of fixed incomes, as the rising cost of goods and services diminishes the purchasing power of individuals with unchanged earnings.

16. Study the relationship in the first pair of terms and complete the second pair.
(i) Wholesale Price Index (WPI) : Measures price changes at the wholesale level.
(ii) Consumer Price Index (CPI) : _____.
(a) Measures prices of services only
(b) Tracks changes in retail prices for consumers
(c) Focuses on industrial goods
(d) Includes wholesale goods only

Ans : COMP 2015

(b) Tracks changes in retail prices for consumers
CPI tracks changes in the retail prices of goods and services consumed by households, reflecting the cost of living for consumers.

17. Study the relationship in the first pair of terms and complete the second pair.
(i) Creeping Inflation : Slow and steady rise in prices.
(ii) Hyperinflation : _____.
(a) Gradual increase in prices
(b) Rapid and uncontrollable rise in prices
(c) Constant prices over time
(d) Prices fall drastically

Ans : MAIN 2016

(b) Rapid and uncontrollable rise in prices
Hyperinflation refers to an extremely high and rapid increase in prices, eroding the value of money and destabilizing the economy.

18. Study the relationship in the first pair of terms and complete the second pair.
(i) Demand-Pull Inflation : Caused by excessive demand.
(ii) Cost-Push Inflation : _____.
(a) Caused by rising production costs
(b) Due to high consumer demand
(c) Results from stable wages
(d) Caused by falling input costs

Ans : SQP 2017

(a) Caused by rising production costs
Cost-push inflation occurs when production costs, like wages and raw materials, increase, leading to a rise in the overall prices of goods and services.

19. Study the relationship in the first pair of terms and complete the second pair.
(i) Positive Effect of Inflation on Production : Encourages investment.
(ii) Negative Effect of Inflation on Distribution : _____.
(a) Benefits fixed-income earners
(b) Hurts fixed-income groups due to declining purchasing power
(c) Benefits creditors over debtors
(d) Lowers demand for goods

Ans : COMP 2018

(b) Hurts fixed-income groups due to declining purchasing power
Inflation erodes the purchasing power of fixed-income earners, as their income remains constant while prices rise, reducing their ability to buy goods and services.

20. Study the relationship in the first pair of terms and complete the second pair.
(i) Food Basket in CPI : Includes essential food items.
(ii) WPI Basket : _____.

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Ans : MAIN 2022

(c) Both Statements 1 and 2 are true.
Creeping inflation is manageable and below 3%, while hyperinflation is extreme and disrupts the economy by eroding the currency's value.

49. **Statement 1 :** Cost-push inflation occurs when the cost of production increases, leading to higher prices.
Statement 2 : Demand-pull inflation arises from an increase in consumer demand without a corresponding increase in supply.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2023

(c) Both Statements 1 and 2 are true.
Cost-push inflation results from rising production costs, such as raw materials or wages. Demand-pull inflation occurs when demand exceeds supply, driving up prices.

50. **Statement 1 :** Cost-push inflation is caused by rising raw material costs or wages.
Statement 2 : Demand-pull inflation is caused by a decrease in consumer spending.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2024

(a) Statement 1 is true and Statement 2 is false.
Cost-push inflation is driven by production cost increases. Demand-pull inflation is caused by rising consumer demand, not a decrease in spending.

51. The Consumer Price Index (CPI) reflects changes in the retail prices of goods and services consumed by households."
(i) True
(ii) False

Ans : MAIN 2000

(i) True
CPI measures the price changes at the consumer level, directly impacting the cost of living for households.

52. The Wholesale Price Index (WPI) focuses on changes in the prices of goods at the retail level."
(i) True
(ii) False

Ans : SQP 2001

(ii) False
WPI tracks price changes at the wholesale level, before goods reach the retail market.

53. A food basket represents a collection of essential goods used to measure inflation rates."
(i) True
(ii) False

Ans : COMP 2002

(i) True
The food basket includes items like grains, fruits, and vegetables to gauge changes in price levels.

54. Hyperinflation refers to a slow and steady increase in price levels."
(i) True
(ii) False

Ans : MAIN 2003

(ii) False
Hyperinflation is an extreme and rapid increase in prices, often exceeding 50% per month.

55. Cost-push inflation is caused by excessive demand for goods and services in the economy."
(i) True
(ii) False

Ans : SQP 2004

(ii) False
Cost-push inflation occurs when rising production costs (e.g., raw materials, wages) lead to higher prices, not due to excessive demand.

56. Demand-pull inflation occurs when the demand for goods exceeds their supply."
(i) True
(ii) False

Ans : COMP 2005

(i) True
Demand-pull inflation results from an imbalance where demand outpaces supply, driving prices up.

57. Creeping inflation is beneficial for economic growth as it encourages production and investment."
(i) True
(ii) False

Ans : MAIN 2006

(i) True

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Inflation refers to a sustained increase in the overall price level of goods and services in an economy over time, reducing the purchasing power of money.

27. Consumer Price Index (CPI) measures the retail price changes paid by households for goods and services."
(a) Measures wholesale price levels.
(b) Tracks retail inflation.
(c) Analyzes demand-pull inflation.
(d) Measures cost-push inflation.

Ans : MAIN 2001

(b) Tracks retail inflation
CPI is used to track retail price changes, reflecting the impact of inflation on household expenses and the cost of living.

28. Prices increase at an alarming rate, exceeding 50% per month, causing extreme economic instability."
(a) Creeping Inflation
(b) Walking Inflation
(c) Running Inflation
(d) Hyperinflation

Ans : COMP 2002

(d) Hyperinflation
Hyperinflation refers to an uncontrollable and extreme increase in prices, often exceeding 50% per month, severely disrupting the economy.

29. Inflation caused by excessive consumer demand for goods and services exceeding supply is categorized under which type of inflation?"
(a) Cost-push Inflation
(b) Deflation
(c) Demand-pull Inflation
(d) Hyperinflation

Ans : SQP 2003

(c) Demand-pull Inflation
Demand-pull inflation occurs when aggregate demand surpasses aggregate supply, driving up prices due to excessive consumer spending and higher demand.

30. Cost-push inflation arises when production costs increase, such as higher wages or raw material prices."
(a) Decreased demand
(b) Increased production costs
(c) Government policies
(d) Increased supply

Ans : COMP 2004

(b) Increased production costs
Cost-push inflation is driven by rising production costs, such as labor wages or raw materials, which increase the overall prices of goods and services.

31. Wholesale Price Index (WPI) tracks changes in the prices of goods sold in bulk before reaching consumers."
(a) Tracks retail prices.
(b) Measures wholesale price changes.
(c) Monitors demand-pull inflation.
(d) Measures individual household expenditure.

Ans : MAIN 2005

(b) Measures wholesale price changes.
WPI measures price changes at the wholesale level, reflecting inflation trends in goods sold in bulk before they reach consumers.

32. Inflation increases production costs, making it difficult for businesses to expand operations."
(a) Increases productivity.
(b) Reduces investment.
(c) Enhances profitability.
(d) Increases employment.

Ans : SQP 2006

(b) Reduces investment.
Inflation raises production costs, reducing business profits and discouraging investments in new projects or expansion, thereby slowing economic growth.

33. A steady increase in prices at a rate below 3% per annum is an example of which stage of inflation?"
(a) Creeping Inflation
(b) Walking Inflation
(c) Running Inflation
(d) Hyperinflation

Ans : COMP 2007

(a) Creeping Inflation
Creeping inflation refers to a slow and manageable rise in prices, typically below 3% annually, which is not harmful to the economy.

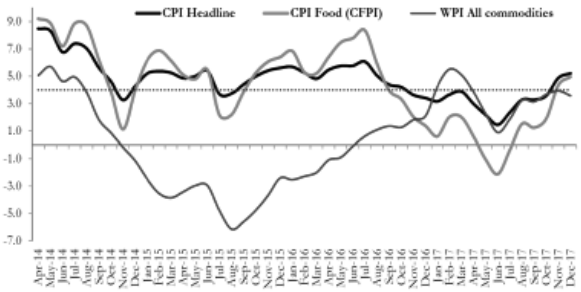
34. Inflation negatively affects fixed-income groups by eroding their purchasing power."
(a) Benefits wage earners.
(b) Reduces income inequality.
(c) Reduces purchasing power of fixed-income groups.
(d) Provides stable income for employees.

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Ans : COMP 2008

(b) Stagflation
Stagflation refers to an economic condition where inflation rises while economic output remains stagnant.

10. What is the primary difference between the WPI and CPI?



(a) WPI measures retail prices, while CPI measures wholesale prices.
(b) WPI focuses on goods only, while CPI includes both goods and services.
(c) WPI covers food items exclusively, while CPI excludes food items.
(d) WPI is used to calculate inflation for consumers, while CPI is used for businesses.

Ans :

Ans : SQP 2009

(b) WPI focuses on goods only, while CPI includes both goods and services.
WPI measures the average price change of goods at the wholesale level, excluding services, whereas CPI includes the prices of both goods and services at the retail level, representing the impact on consumers directly.

11. **Assertion (A) :** The Consumer Price Index (CPI) measures changes in the prices of goods and services consumed by households.
Reason (R) : CPI includes a fixed basket of goods and services that represents the average consumption pattern of households.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2010

(a) Both A and R are true, and R is the correct explanation of A.
CPI tracks price changes for a predefined basket of goods and services, making it a reliable measure of household inflation and living costs.

12. **Assertion (A) :** Cost-push inflation occurs when the cost of production rises, leading to increased prices of goods and services.
Reason (R) : Higher costs for inputs like labor and raw materials reduce producers' profit margins, prompting them to increase prices.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2011

(a) Both A and R are true, and R is the correct explanation of A.
Cost-push inflation results from higher input costs, such as wages and raw materials, forcing producers to raise prices to maintain profitability.

13. **Assertion (A) :** Hyperinflation occurs when inflation exceeds several hundred percent annually, destabilizing the economy.
Reason (R) : Hyperinflation often results from excessive printing of money by governments to cover deficits.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2012

(a) Both A and R are true, and R is the correct explanation of A.
Hyperinflation erodes purchasing power and destabilizes economies. Excessive money supply without corresponding economic output often triggers this phenomenon.

14. **Assertion (A) :** Demand-pull inflation is caused by an increase in aggregate demand that exceeds supply.
Reason (R) : Rising consumer spending and increased government expenditure are common causes of demand-pull inflation.

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households and is used to measure inflation's impact on consumers.

42. Ms. Priya explained that 'inflation caused by excessive demand in the economy for goods and services, surpassing the supply, leads to a rise in prices.' What is this type of inflation called?
(a) Cost-push inflation
(b) Demand-pull inflation
(c) Creeping inflation
(d) Hyperinflation

Ans : MAIN 2016

(b) Demand-pull inflation
Demand-pull inflation occurs when aggregate demand in the economy exceeds the available supply, driving prices upward.

43. Mr. Arvind described the stage of inflation where 'prices rise moderately and remain under control, often seen as a sign of economic stability.' What is this stage of inflation called?
(a) Creeping inflation
(b) Running inflation
(c) Walking inflation
(d) Hyperinflation

Ans : SQP 2017

(a) Creeping inflation
Creeping inflation is a slow and steady rise in prices, typically below 3%, which is generally considered manageable and beneficial for economic growth.

44. Ms. Rekha explained that 'a fixed basket of goods and services, such as food, housing, and transportation, is used to calculate changes in inflation rates.' What is this basket called?
(a) Food Basket
(b) Consumer Basket
(c) Inflation Basket
(d) Price Index Basket

Ans : COMP 2018

(b) Consumer Basket
The consumer basket includes a representative set of goods and services used to track inflation rates through indices like CPI.

45. Mr. Suresh explained that 'inflation negatively affects individuals with fixed incomes because the purchasing power of their earnings declines over time.' Which group is most affected by this?
(a) Business owners
(b) Fixed-income earners
(c) Investors in real assets
(d) Exporters

Ans : MAIN 2019

(b) Fixed-income earners
Fixed-income earners, such as retirees and salaried employees, face a decline in purchasing power during inflation, as their incomes remain constant while prices rise.

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46. **Statement 1 :** Inflation refers to the sustained increase in the general price level of goods and services over time.
Statement 2 : The Wholesale Price Index (WPI) measures changes in the price level of goods sold at the retail level.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2020

(a) Statement 1 is true and Statement 2 is false.
Inflation represents a rise in prices over time. WPI tracks wholesale prices, while retail prices are measured by the Consumer Price Index (CPI).

47. **Statement 1 :** The Consumer Price Index (CPI) measures the price changes of goods and services in a representative food basket for consumers.
Statement 2 : CPI directly reflects the impact of inflation on consumers.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2021

(c) Both Statements 1 and 2 are true.
CPI calculates price changes in goods and services consumed by households, showing the direct effects of inflation on consumer purchasing power.

48. **Statement 1 :** Creeping inflation occurs when the inflation rate is steady and below 3%.
Statement 2 : Hyperinflation refers to an exceptionally high and accelerating rate of inflation, often exceeding 50% per month.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

(a) Consists of only agricultural products
(b) Includes industrial goods and raw materials
(c) Excludes food items entirely
(d) Focuses on services only

Ans : MAIN 2019

(b) Includes industrial goods and raw materials
The WPI basket includes a variety of goods, such as industrial products, raw materials, and some agricultural items, reflecting price changes at the wholesale level.

21. Study the relationship in the first pair of terms and complete the second pair.
(i) Walking Inflation : Moderate rise in prices.
(ii) Running Inflation : _____.
(a) Gradual and steady price rise
(b) Rapid increase in prices between 10–20% annually
(c) Prices rise uncontrollably
(d) No significant price changes

Ans : SQP 2020

(b) Rapid increase in prices between 10–20% annually
Running inflation refers to a rapid rise in prices, typically between 10–20% per annum, which can negatively impact savings and economic stability.

22. Study the relationship in the first pair of terms and complete the second pair.
(i) Positive Effect of Inflation on Production : Higher profits encourage investment.
(ii) Negative Effect of Inflation on Production : _____.
(a) Reduces borrowing costs
(b) Discourages investment due to uncertainty
(c) Boosts economic growth
(d) Increases savings among consumers

Ans : COMP 2021

(b) Discourages investment due to uncertainty
Uncertainty caused by inflation, especially high or unpredictable inflation, can discourage producers from investing in long-term projects due to fluctuating costs and prices.

23. Study the relationship in the first pair of terms and complete the second pair.
(i) Demand-Pull Inflation : Excessive demand over supply.
(ii) Cost-Push Inflation : _____.
(a) Increase in production efficiency
(b) Increase in wages and raw material costs
(c) Results from falling demand
(d) Reduction in government spending

Ans : MAIN 2022

(b) Increase in wages and raw material costs
Cost-push inflation is caused by rising production costs, such as wages or raw materials, forcing producers to pass on these higher costs to consumers as increased prices.

24. Study the relationship in the first pair of terms and complete the second pair.
(i) CPI : Reflects changes in consumer prices.
(ii) WPI : _____.
(a) Tracks changes in retail prices for consumers
(b) Measures changes in wholesale prices
(c) Excludes all manufactured goods
(d) Focuses only on services

Ans : SQP 2023

(b) Measures changes in wholesale prices
WPI measures changes in the prices of goods at the wholesale level, helping track inflation before it impacts retail prices and consumer spending.

25. Study the relationship in the first pair of terms and complete the second pair.
(i) Hyperinflation : Prices rise uncontrollably.
(ii) Creeping Inflation : _____.
(a) Rapid increase in prices
(b) Slow and manageable price increase
(c) Price stability with no change
(d) Negative inflation rate

Ans : COMP 2024

(b) Slow and manageable price increase
Creeping inflation is characterized by a slow and steady rise in prices, typically under 3% annually, considered manageable and beneficial for economic growth.

26. Inflation occurs when the overall price level of goods and services in the economy rises over time."
(a) Deflation
(b) Stagflation
(c) Inflation
(d) Recession

Ans : SQP 2000

(c) Inflation

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Creeping inflation is moderate and promotes economic activities by ensuring businesses earn profits while keeping the economy stable.

58. Fixed-income earners benefit from inflation as their purchasing power increases."
(i) True
(ii) False

Ans : SQP 2007

(ii) False
Inflation reduces the purchasing power of fixed-income earners, as their income does not adjust to rising prices.

59. Inflation can have positive effects on production by encouraging businesses to expand due to higher profits."
(i) True
(ii) False

Ans : COMP 2008

(i) True
Moderate inflation increases profits, motivating businesses to invest and produce more.

60. Regressive effects of inflation are more pronounced for individuals with variable incomes than fixed incomes."
(i) True
(ii) False

Ans : MAIN 2009

(ii) False
Fixed-income earners face a greater loss in purchasing power compared to individuals with variable incomes, who may benefit from inflation.

TWO MARKS QUESTIONS

61. 'A state of running or hyperinflation in any economy is very harmful for production.' Justify the statement with two reasons.

Ans : COMP 2024

Yes, a state of running or hyperinflation in any economy is highly detrimental to production.
(i) Reduced Real Income : Running or hyperinflation diminishes consumers' purchasing power, leading to decreased demand for goods and services. As a result, businesses face reduced sales and are compelled to lower production levels to match the reduced demand, thereby negatively impacting overall production.
(ii) Uncertainty in Costs : Running or hyperinflation creates a volatile business environment due to unpredictable fluctuations in prices and costs. This uncertainty makes it difficult for businesses to forecast expenses accurately, causing reluctance to invest in production capacity or expansion, which ultimately restricts overall production growth.

NODIA

62. Give any two points of differentiation between creeping inflation and running inflation.

Ans : SQP 2018,2013

Creeping Inflation	Running Inflation
When the rise in prices is slow and gradual, typically at a mild rate of 0% to 2% per year, it is called creeping inflation.	When prices rise at a faster rate, usually around 10% to 20% per year, it is referred to as running inflation.
Such an increase in prices is considered safe and beneficial for economic growth.	It serves as a warning signal, indicating the need for measures to control inflation.

63. Define cost-push inflation. State two factors causing it.

Ans : COMP 2013

Cost-push Inflation : This occurs when the overall price level increases due to a rise in production costs such as raw materials and wages.
Factors Causing Cost-Push Inflation
1. Higher Price of Commodities : An increase in the price of essential commodities, such as oil, leads to higher costs for petrol, transport, and other goods, contributing to inflation.
2. Imported Inflation : Currency devaluation raises the cost of imports, causing inflation due to higher prices of imported goods.
3. Higher Wages : Rising wages increase production costs for firms, which are passed on to consumers in the form of higher prices.
4. Higher Taxes : Increased taxes like VAT or excise duties raise the cost of goods, leading to temporary inflation.
5. Profit-Push Inflation : Firms with monopoly power may increase prices to maximize profits, causing inflation.

Ans : SQP 2017

(i) Rising costs of raw materials, such as oil price hikes, increase production expenses, leading to higher prices for goods.
(ii) Increased wages due to labor demands add to production costs, forcing businesses to raise product prices.

78. "Justify the following statement with any two valid arguments :
'Consumer Price Index (CPI) is a better measure of inflation for households compared to Wholesale Price Index (WPI).'"

Ans : COMP 2018

(i) CPI tracks the prices of goods and services directly consumed by households, such as food, clothing, and healthcare, reflecting their cost of living.
(ii) WPI focuses on wholesale prices and does not account for retail-level changes that directly impact consumers.

79. "Justify the following statement with any two valid arguments :
'Hyperinflation disrupts the economy and leads to instability.'"

Ans : MAIN 2019

(i) Hyperinflation erodes the value of money, causing savings to lose worth, and consumers struggle to afford basic goods.
(ii) Businesses fail as supply chains collapse, and investors lose confidence, leading to economic breakdown.

80. "Justify the following statement with any two valid arguments :
'Creeping inflation is beneficial for economic growth.'"

Ans : SQP 2020

(i) Creeping inflation (1% (ii) annually) encourages spending and investment as consumers and businesses anticipate moderate price increases.
(ii) It allows businesses to grow their revenues steadily, supporting innovation and job creation.

81. "Justify the following statement with any two valid arguments :
'Demand-pull inflation occurs when demand exceeds supply.'"

Ans : COMP 2021

(i) Increased consumer spending due to higher disposable income leads to excess demand, causing prices to rise.
(ii) Government policies, such as reduced interest rates, boost borrowing and spending, further increasing demand and inflation.

82. "Justify the following statement with any two valid arguments :
'Inflation negatively affects fixed-income groups more than business income groups.'"

Ans : MAIN 2022

(i) Fixed-income groups, like pensioners, lose purchasing power as their earnings remain constant while prices rise.
(ii) Business income groups can adjust to inflation by increasing product prices, maintaining or even improving profitability.

83. "In an economy, workers in the manufacturing sector report higher income during inflation, while pensioners face financial stress. Explain the reason for this difference."

Ans : COMP 2023

(i) Workers in manufacturing : Benefit as inflation allows employers to increase prices and wages to offset rising production costs.
(ii) Pensioners : Suffer as their fixed incomes cannot adjust to inflation, reducing their ability to afford basic necessities.

84. "Why do the WPI and CPI show different inflation rates for the same period in an economy?"

Ans : SQP 2024

(i) WPI : Measures inflation at the wholesale level, focusing on raw materials and producer costs, which may increase at a slower or faster rate.
(ii) CPI : Measures inflation at the consumer level, capturing changes in retail prices of goods and services, which may differ based on consumer demand and supply.

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meet higher demand.

(ii) Negative effects on production : Rising input costs reduce profit margins, and uncertainty in the economy discourages long-term investments.

(iii) Positive effects on income distribution : Business income groups benefit from higher revenues and profitability, allowing for expansion and reinvestment.

(iv) Negative effects on income distribution : Fixed-income groups lose purchasing power as their earnings fail to keep pace with inflation, reducing their standard of living.

72. "Cost-push and demand-pull inflation have different causes and effects. Justify this statement with two suitable reasons for each type of inflation."

Ans : COMP 2011

(i) Cost-push inflation : Caused by rising production costs like higher wages or raw material prices, such as oil price hikes. This type of inflation reduces supply as production becomes costlier.

(ii) Demand-pull inflation : Caused by excessive demand over supply, such as high consumer demand during festivals. It typically reflects a growing economy but can lead to overheating if unchecked.

73. "Creeping inflation is beneficial, while hyperinflation harms the economy. Justify this statement with two suitable reasons for each."

Ans : SQP 2012

(i) Creeping inflation : Encourages spending, boosting demand and economic growth. It also benefits businesses by increasing revenues, allowing reinvestment.

(ii) Hyperinflation : Destroys the value of money and savings, leading to severe economic instability. It disrupts businesses as supply chains collapse and basic goods become unaffordable.

74. "The Consumer Price Index (CPI) and Wholesale Price Index (WPI) are vital indicators of inflation. Justify this statement with two suitable reasons."

Ans : COMP 2019

(i) CPI : Measures price changes for goods and services consumers purchase, reflecting the cost of living. For example, a rise in CPI shows higher household expenses.

(ii) WPI : Tracks price changes at the wholesale level, helping to predict retail inflation. For instance, a rise in steel prices in WPI signals costlier goods like automobiles.

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75. "Stages of inflation creeping, walking, running, and hyper have varying impacts on the economy. Justify this statement with two suitable reasons for each stage."

Ans : MAIN 2014

(i) Creeping inflation : At 1%-(ii) annually, it promotes economic growth by encouraging spending and investment. It also supports steady business expansion without disrupting stability.

(ii) Walking inflation : At 3%-9%, it reduces purchasing power but remains manageable. Businesses may face moderate cost increases but can still sustain profitability.

(iii) Running inflation : At 10%-20%, it discourages savings and raises the cost of essentials, leading to reduced consumer spending. Businesses may struggle to maintain operations due to high costs.

(iv) Hyperinflation : Above 50% monthly, it devastates the economy, eroding the value of money and disrupting trade. It causes businesses to fail as production costs spiral out of control.

76. "Positive and negative effects of inflation are felt differently by fixed-income groups and business income groups. Justify this statement with two examples for each group."

Ans : COMP 2016

(i) Fixed-income groups : Inflation reduces purchasing power, making it harder for pensioners to afford essential goods. Additionally, salaries may not increase proportionally to rising costs, lowering their standard of living.

(ii) Business income groups : Inflation benefits businesses by increasing revenue as prices rise, such as higher profits for retailers during festive seasons. However, rising input costs, like materials and labor, can reduce profit margins over time.

77. "Justify the following statement with any two valid arguments :
'Cost-push inflation is driven by an increase in production costs.'"

(b) Higher Taxes : The introduction of new taxes or hikes on goods and services, including import and export tariffs, raises production costs. Companies either absorb these taxes, reducing their profit margins, or pass them on to consumers in the form of higher product prices.

(c) Raw Material Shortages : Shortages due to natural disasters, wars, or disruptions in supply chains can make raw materials scarcer and more expensive. This leads to increased costs for businesses, which they pass on to consumers, inflating final product prices.

88. (i) What is the meaning of demand-pull inflation?
(ii) Explain any three causes of demand-pull inflation.

Ans : MAIN 2020,2018

(i) Demand-pull inflation occurs when the aggregate demand for goods and services exceeds their supply, leading to a rise in prices. It is often caused by increased consumer spending, government expenditure, or external demand.

(ii) Causes of Demand-Pull Inflation :

(a) Increased Consumer Spending : When consumers spend more due to higher incomes, easy credit availability, or lower interest rates, the demand for goods and services increases, causing inflation.

(b) Government Expenditure : Excessive government spending on infrastructure, welfare programs, or subsidies can boost demand in the economy, leading to price rises.

(c) Growth in Exports : A surge in exports increases foreign demand for domestic goods, reducing supply in the local market and driving prices up.

89. (i) What do you understand by hyperinflation?
(ii) Give any three effects of inflation on production.

Ans : SQP 2020

(i) Hyperinflation refers to an extreme situation where prices rise uncontrollably, rendering the concept of inflation irrelevant.

(ii) During inflation, producers benefit in the short term as production costs rise more slowly than product prices, leading to higher profits. However, in the long term, rising prices can reduce demand for goods, lowering overall consumption. This reduced demand increases the cost per unit of production, ultimately reducing profits for producers.

90. Define inflation. Explain its impact on the producers and salaried class.

Ans : COMP 2019,2013

Inflation is a condition characterized by a persistent and rapid increase in the prices of goods and services or the overall price level.

(i) Impact on Producers : Initially, producers benefit as the value of their inventory increases and profit margins grow due to slower increases in production costs. However, in the long term, rising production expenses and decreased consumer demand can lead to reduced profits.

(ii) Impact on Salaried Class (Fixed Income Groups) : Individuals with fixed incomes, such as salaried workers, pensioners, and landlords, are negatively impacted as their earnings remain unchanged while the cost of living rises, diminishing their purchasing power.

91. What is Cost-Push inflation? Briefly explain three causes of cost-push inflation.

Ans : MAIN 2019,2015

Cost-Push Inflation : Cost-push inflation occurs when the overall price level rises due to increased production costs, such as raw materials, wages, or taxes.

Three Causes of Demand-Pull Inflation :

(i) Economic Growth : When consumers feel optimistic, they tend to spend more and take on additional debt, causing a consistent rise in demand, which leads to higher prices.

(ii) Government Spending : Increased government expenditure on programs and projects can drive up demand, resulting in rising prices.

(c) Inflation Expectations : Companies may preemptively raise their prices in anticipation of future inflation, contributing to a rise in overall price levels.

92. (i) What is meant by the term 'inflation'? What is its impact on debtors?
(ii) Explain the following:
(a) Creeping inflation
(b) Walking inflation
(c) Hyperinflation

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FIVE MARKS QUESTIONS

85. Define inflation.

Ans : COMP 2023

Inflation refers to the persistent and general increase in the prices of goods and services over a period of time, leading to a decrease in the purchasing power of money. It is measured as the rate at which the average price level of a basket of selected goods and services in an economy rises.

Key Points :

(i) Nature of Inflation : It is a sustained rise in the overall price level, not a one-time increase.

(ii) Effect on Purchasing Power : Inflation reduces the value of money as the same amount of money buys fewer goods and services.

(iii) Measurement : Inflation is typically measured using indices like the Consumer Price Index (CPI) or the Wholesale Price Index (WPI).

(iv) Types of Inflation :

(a) Demand-Pull Inflation : Caused by excessive demand in the economy.

(b) Cost-Push Inflation : Caused by an increase in the costs of production.

(v) Impact on Economy : Inflation affects savings, investments, and economic stability, influencing both consumers and businesses.

86. (i) What is the meaning of creeping inflation?

(ii) Explain any three causes of demand-pull inflation.

Ans : MAIN 2024

(i) Creeping inflation refers to a slow and steady rise in the general price level of goods and services over time. Unlike hyperinflation or rapid inflation, creeping inflation occurs at a moderate rate, typically ranging between 1% and 3% annually.

(ii) Causes of Demand-Pull Inflation :

(a) **Increased Consumer Spending :** Strong consumer confidence, rising incomes, or expansionary fiscal policies, such as tax cuts or government spending, can boost consumer demand, driving up demand for goods and services.

(b) **Expansionary Monetary Policy :** Central banks implementing loose monetary policies, like lowering interest rates or increasing the money supply, can stimulate borrowing and spending. This rise in money circulation can increase demand for goods and services, contributing to inflationary pressures.

(c) **Investment Expenditure :** Increased business investment, driven by favorable economic conditions, technological advancements, or business optimism, can raise demand for capital goods and services, fueling inflation.

(d) **Government Spending :** Expenditures on infrastructure projects, defense, or social programs can raise demand for goods and services, particularly when funded through deficit spending or monetary expansion.

(e) **Exports and Exchange Rates :** Strong export demand or a depreciation of the domestic currency can increase foreign demand for goods and services, boosting overall demand and causing inflationary pressures.

(f) **Supply Shocks :** Temporary supply chain disruptions, such as natural disasters, geopolitical events, or production bottlenecks, can reduce supply while demand remains constant or increases, leading to upward pressure on prices.

(g) **Expectations :** Anticipation of future inflation among consumers, businesses, and policy makers can influence current spending and investment decisions, creating self-fulfilling inflationary trends.

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87. (i) What is the meaning of cost-push inflation?

(ii) Explain any three causes of cost-push inflation.

Ans : SQP 2023

(i) Cost-push inflation refers to a rise in general price levels caused by increased production costs, such as higher wages or raw material prices. This inflation type reduces aggregate supply while pushing overall price levels upward.

(ii) Three key reasons for cost-push inflation are:

(a) Rising Labour Costs : When wages rise without a corresponding increase in productivity, businesses face increased payroll expenses. For example, union negotiations for higher wages can leave companies with less money after paying salaries, forcing them to pass on these costs to consumers by raising product prices.

6. Wage Inflation : Workers forcing wage increases push up production costs, which are transferred to consumers as higher prices.
7. Natural Disasters : Disruptions in supply chains due to natural disasters can reduce the availability of goods, driving prices up.
8. Government Regulation and Taxation : Government policies, such as taxes on certain goods like cigarettes or alcohol, can reduce supply and lead to inflation by increasing production costs.

64. Why do small farmers suffer during inflation?

Ans : SQP 2018

(i) A large part of their produce is retained for personal use and is not sold in the market.
(ii) During inflation, they are forced to purchase farming essentials like seeds, fertilizers, and insecticides at increased prices.

65. What is meant by cost-push inflation?

Ans : MAIN 2017

Cost-push inflation arises when a decrease in aggregate supply leads to rising prices. This may be caused by factors such as natural disasters or higher input costs and is also known as 'Supply Shock Inflation.

66. Define creeping inflation. Why is it considered good for an economy?

Ans : COMP 2016,2016

Creeping inflation refers to a slow and gradual rise in prices, often compared to the movement of a snail or creeper. It is characterized by an annual price increase of less than 2% to 3%. This type of inflation is considered beneficial for the economy, as it is deemed safe and essential for sustainable economic growth.

67. What is meant by demand-pull inflation?

Ans : MAIN 2014

Demand-pull inflation occurs due to an increase in aggregate demand, driven by higher private and government spending. It is considered beneficial for faster economic growth, as excess demand and favorable market conditions encourage investment and business expansion.

68. A mild inflation is beneficial for economic growth. Justify the statement.

Ans : SQP 2012

Mild inflation benefits the economy as it encourages consumption while preserving the value of people's savings. It occurs when prices rise gradually over time, increasing public revenue and supporting government finances. This type of inflation is considered favorable for economic growth.

69. (i) Define inflation.
(ii) What does hyperinflation mean?

Ans : COMP 2021

(i) According to Gardner Ackley, Inflation refers to a continuous and significant increase in the general level or average of prices."
(ii) Hyperinflation is a severe condition where prices rise at an uncontrollable rate, rendering the concept of inflation meaningless.

70. Examine the image above. Identify which inflation indicator (Wholesale Price Index or Consumer Price Index) is most relevant to tracking the change in grocery prices. Justify your answer



Ans : MAIN 2013

The Consumer Price Index (CPI) is the most relevant as it tracks the changes in the retail prices of goods and services purchased by households, including groceries, which are part of the food basket.

71. Inflation impacts both the production process and income distribution. Justify this statement with two positive and two negative effects of inflation."

Ans : SQP 2015

(i) Positive effects on production : Inflation increases revenues, encouraging businesses to invest in new technologies and expand operations. It also motivates innovation to

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Ans : SQP 2017

(i) Inflation : Inflation refers to a sustained rise in the general price level, which reduces the purchasing power of money.
Impact on Debtors : During inflation, debtors benefit as the value of money falls. They repay the same amount, but it holds less value, allowing them to pay less in terms of goods and services.

(ii) (a) Creeping Inflation : Prices rise at a slow, mild rate (e.g., up to 2% annually), considered safe and beneficial for economic growth.
(b) Walking Inflation : Prices rise moderately, with an annual inflation rate between (c) and 10%.
(c) Hyperinflation : Prices rise uncontrollably and extremely fast, making inflation meaningless as a concept

93. "In the context of rising inflation in India, what are the key measures consumers should adopt to safeguard their purchasing power and manage rising prices effectively?"

Ans : COMP 2018

(i) Consumers should stay informed about inflation trends through indicators like CPI and WPI to understand how prices are changing.

(ii) Preparing a budget and prioritizing spending on essential items helps minimize the impact of rising costs.

(iii) Opting for bulk purchases of non-perishable goods during creeping inflation can prevent paying higher prices later.

(iv) Consumers should avoid panic buying during high-demand periods, as it further pushes prices upward.

(v) Switching to substitutes or generic brands instead of premium ones can help manage household expenses during inflation.

94. "With the increasing impact of food price inflation due to supply chain disruptions, what responsibilities should policy makers and consumers uphold to stabilize inflation?"

Ans : MAIN 2019

(i) Policy makers :
(a) Improve agricultural productivity to ensure a steady supply of food items.
(b) Invest in infrastructure for better storage and transportation to reduce wastage of perishable goods.

(ii) Consumers :
(a) Avoid unnecessary hoarding of essential food items, which leads to artificial demand spikes.
(b) Support local producers and buy locally grown products to reduce dependence on costly imports.
(c) Stay updated on market prices to make informed purchasing decisions and avoid being overcharged.

95. "In the context of understanding inflation's impact on society, what steps should businesses and fixed-income groups take to manage the effects of inflation?"

Ans : COMP 2020

(i) Businesses :
(a) Implement cost-efficient technologies and streamline production to control rising costs.
(b) Adopt pricing strategies like discounts for bulk buyers to retain customers during inflationary periods.
(c) Diversify product offerings to include cost-effective options for consumers.

(ii) Fixed Income Groups :
(a) Explore investment options like inflation-indexed bonds to preserve the value of their savings.
(b) Reduce discretionary spending and focus on essential purchases.
(c) Adjust long-term financial plans to account for reduced purchasing power due to inflation.

96. "With a sudden rise in hyperinflation in some economies, what are the key responsibilities governments and businesses must fulfill to protect consumers?"

Ans : SQP 2018

(i) Governments :
(a) Implement strict monetary policies to reduce the money supply and stabilize the currency.
(b) Subsidize essential goods like food and fuel to make them affordable for consumers.
(c) Improve financial literacy programs to educate people on managing hyperinflation.

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(ii) Businesses :

(a) Avoid exploiting consumers by maintaining fair pricing practices, even with rising production costs.

(b) Focus on producing essential goods instead of luxury items to meet consumer needs during hyperinflation.

(c) Innovate production processes to reduce dependency on expensive inputs.

97. "As inflation levels rise in the economy, what role should consumer awareness play in helping individuals make better financial decisions?"

Ans : MAIN 2019

(i) Consumer awareness helps individuals understand inflation indicators like CPI and WPI, enabling them to anticipate price changes.

(ii) Awareness about stages of inflation (creeping, walking, running, hyper) allows consumers to adjust their spending habits accordingly.

(iii) Consumers can make better decisions by purchasing durable goods during creeping inflation to avoid future price increases.

(iv) Educated consumers are more likely to choose standardized products with fixed prices, reducing exploitation during inflation.

(v) Being aware of savings and investment options, such as inflation-indexed bonds, helps individuals preserve their wealth during inflationary periods.

98. The following table shows the inflation rates and their stages:

Inflation Rate (%)	**Stage of Inflation**	**Characteristics (examples)**
2%	(i) _____	Moderate, stimulates growth.
8%	Walking Inflation	(ii) _____.
15%	Running Inflation	Threatens stability and discourages saving.
55%	(iii) _____	Erodes currency value and causes collapse.

Based on the above table, answer the following questions :

(i) Name the stage of inflation at 2% (i).

(ii) What is the key characteristic of walking inflation (ii)?

(iii) Identify the stage of inflation at 55% (iii).

(iv) Explain the relationship between inflation stages and economic stability.

(v) Mention one measure to control running inflation.

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Ans : SQP 2021

(i) Creeping Inflation : Inflation below 3% that promotes steady economic growth.

(ii) Moderate impact : Walking inflation (3%-9%) reduces purchasing power but can still be manageable if controlled.

(iii) Hyperinflation : Inflation above 50%, leading to economic instability and currency devaluation.

(iv) Relationship : As inflation rates increase from creeping to hyperinflation, economic stability decreases due to reduced purchasing power and loss of confidence in currency.

(v) Measure : Tighten monetary policies by increasing interest rates to reduce excess demand.

99. The table below shows the causes of inflation:

Cause	**Type of Inflation**	**Impact on Economy**
Rising wages	(i) _____	Increased production costs.
Excessive consumer demand	Demand-Pull Inflation	(ii) _____
Rising raw material costs	Cost-PushInflation	Higher prices and reduced supply.
Increased government spending	(iii) ___	Creates excess demand in the economy.

Based on the above table, answer the following questions :

(i) Identify the type of inflation caused by rising wages (i).

(ii) What is the impact of demand-pull inflation on prices (ii)?

(iii) Identify the inflation caused by increased government spending (iii).

(iv) Examine the relationship between cost-push inflation and supply.

(v) State one method to reduce demand-pull inflation.

Ans : COMP 2022

(i) Cost-Push Inflation : Caused by rising wages or input costs, leading to increased production expenses.
(ii) Rising Prices : Demand-pull inflation causes prices to rise as demand exceeds supply.
(iii) Demand-Pull Inflation : Increased government spending boosts demand, creating inflation.
(iv) Relationship : Cost-push inflation reduces supply as higher production costs discourage output.
(v) Method : Reduce government spending or increase taxes to curb demand.

100. The table below shows demand and supply conditions:

Price (Rs)	Demand (kgs)	Supply (kgs)	Type of Inflation
10	15	10	(i) ____
8	18	18	No Inflation
6	20	25	(ii) ____.

Based on the above table, answer the following questions :

(i) Name the type of inflation at Rs. 1 (i).
(ii) Identify the situation at Rs. 6 (ii).
(iii) Explain how demand and supply affect inflation.
(iv) State one way to address inflation caused by excessive demand.
(v) How does balanced demand and supply ensure price stability?

Ans : SQP 2023

(i) Demand-Pull Inflation : At Rs. 10, demand exceeds supply, leading to rising prices.
(ii) Deflation : At Rs. 6, supply exceeds demand, causing prices to fall.
(iii) Effect : When demand exceeds supply, prices rise, leading to inflation. Conversely, excess supply leads to deflation.
(iv) Way : Increase supply or reduce demand through higher taxes or reduced government spending.
(v) Stability : Balanced demand and supply prevent sharp price changes, maintaining economic stability.

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CASE BASED QUESTION

101. Ravi, a businessman, and Karan, a retired government employee, experience different impacts of inflation. Explain the reasons for inflation affecting them differently."

Ans : MAIN 2024

(i) For Ravi (businessman) : Inflation may benefit him as rising prices increase his revenue, helping maintain or grow profitability.
(ii) For Karan (retired employee) : Inflation reduces his purchasing power as his fixed pension income cannot adjust to rising prices, making it harder to afford essentials.

102. A food basket in a rural area has more weight age for grains, while an urban food basket focuses on processed foods. Why is there a difference in food baskets for calculating CPI ?

Ans : SQP 2001

(i) Rural areas depend more on basic staples like grains due to lifestyle and dietary habits, so they hold more significance in the CPI calculation.
(ii) Urban areas consume more processed and packaged foods due to accessibility and preferences, making these items more relevant in urban CPI.

103. Two factories producing the same goods experience different levels of inflation. One reports high inflation due to rising raw material costs, while the other blames increased consumer demand. Explain the difference."

Ans : MAIN 2002

(i) The first factory faces Cost-Push Inflation caused by higher raw material costs, such as increased oil prices raising transportation costs.
(ii) The second factory experiences Demand-Pull Inflation due to excess consumer demand for its goods, leading to higher prices.

104. A country with creeping inflation of 2% and another with hyperinflation of 200% face different economic outcomes. Explain why the effects of inflation vary between the two."

Ans : COMP 2003

(i) Creeping inflation (2%) : Encourages spending and investment, promoting steady economic

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growth without destabilizing the economy.
(ii) Hyperinflation (200%) : Erodes the value of money, disrupts savings, and creates instability, making goods unaffordable and collapsing the economy.

105. By giving valid reasons, explain which of the following will represent Cost-Push Inflation."
(i) A rise in wages due to labor strikes, increasing the cost of production.
(ii) An increase in demand for electronics during a festive sale.

Ans : SQP 2004

(i) Cost-Push Inflation : This qualifies as Cost-Push Inflation because increased wages raise the cost of production, leading to higher prices for goods.
(ii) Not Cost-Push Inflation : This represents Demand-Pull Inflation since higher consumer demand during the festive season drives up prices.

106. By giving valid reasons, explain which of the following reflects the meaning of Creeping Inflation."
(i) Prices increase at a rate of 1%-2% annually, leading to steady economic growth.
(ii) Prices rise at an uncontrollable rate, exceeding 50% monthly.

Ans : MAIN 2005

(i) Creeping Inflation : This represents Creeping Inflation as it describes a slow and manageable increase in prices, which is beneficial for economic stability and growth.
(ii) Not Creeping Inflation : This describes Hyperinflation, characterized by uncontrollable and extreme price increases.

107. By giving valid reasons, explain which of the following will be included in the Consumer Price Index (CPI)."
(i) The price of household groceries purchased by a family.
(ii) The price of raw materials used by a manufacturer.

Ans : SQP 2006

(i) Included in CPI : Household groceries directly affect consumer spending and the cost of living, which the CPI measures.
(ii) Not included in CPI : Raw material prices are part of the Wholesale Price Index (WPI), not the CPI, as they reflect producer-level costs.

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108. "By giving valid reasons, explain which of the following is an example of Demand-Pull Inflation."
(i) Increased consumer spending due to low interest rates.
(ii) Higher transportation costs due to rising fuel prices.

Ans : COMP 2007

(i) Demand-Pull Inflation : This is Demand-Pull Inflation because low interest rates boost consumer purchasing power, leading to increased demand and rising prices.
(ii) Not Demand-Pull Inflation : This is Cost-Push Inflation as it results from higher production costs, such as fuel prices.

109. "By giving valid reasons, explain which of the following will reflect positive effects of inflation on business income groups."
(i) Increased revenue due to rising product prices during inflation.
(ii) Higher costs of raw materials and reduced profit margins.

Ans : MAIN 2008

(i) Positive Effect : Businesses benefit from inflation when they can sell products at higher prices, boosting revenue and profitability.
(ii) Not a Positive Effect : Rising costs of raw materials are a negative effect, as they reduce the profit margins of businesses.

110. Read the extract and answer the following questions :
Ramesh, a factory owner, noticed rising prices of raw materials like steel and transportation costs. To cope, he increased the selling price of his products. Meanwhile, consumers reduced their purchases due to higher costs.
(i) Identify the type of inflation described in the extract.
(ii) Explain any four characteristics of this type of inflation.

Ans : SQP 2009

(i) Cost-Push Inflation : This type of inflation occurs when production costs, such as raw materials and wages, increase, forcing businesses to raise prices.
(ii) Characteristics of Cost-Push Inflation :
(a) Production-driven : Arises from higher input costs, such as raw materials or wages.

(b) Supply-side focus : Reduces the supply of goods as higher costs make production less profitable.
(c) Impact on consumers : Leads to higher prices for goods and services, reducing purchasing power.
(d) Challenging to control : Monetary policy may be less effective as the root cause lies in production costs.

111. Read the extract and answer the following questions :
The government observed a consistent increase in food prices, leading to higher CPI inflation. To address this, it introduced subsidies on essential items like grains and vegetables while improving storage facilities to reduce wastage.
(i) Name the inflation index mentioned in the extract.
(ii) Explain any four characteristics of the above-mentioned inflation index.

Ans : COMP 2010

(i) Consumer Price Index (CPI) : Measures the average change in retail prices of goods and services consumed by households.
(ii) Characteristics of CPI :
(a) Consumer-oriented : Focuses on goods and services directly affecting households, such as food and transportation.
(b) Reflects cost of living : Indicates how inflation impacts consumers' ability to afford necessities.
(c) Weighted index : Different items in the CPI basket have varying weights based on their importance to households.
(d) Policy impact : Used by governments to design subsidies and monetary policies to stabilize inflation.

112. Read the extract and answer the following questions :
A country's inflation rate is rising due to increased consumer demand for goods and services, while production remains constant. The government lowered interest rates, further boosting demand.
(i) Identify the type of inflation mentioned in the extract.
(ii) Explain any four characteristics of this type of inflation.

Ans : SQP 2011

(i) Demand-Pull Inflation : Occurs when aggregate demand exceeds the supply of goods and services in the economy.
(ii) Characteristics of Demand-Pull Inflation :
(a) Demand-driven : Caused by excess consumer demand over available supply.
(b) Economic growth indicator : Often linked to a booming economy with rising consumer spending.
(c) Monetary influence : Policies like lower interest rates or increased government spending amplify demand.
(d) Temporary if controlled : Can be managed by reducing demand through tighter monetary policies.

113. Read the extract and answer the following questions :
A country with running inflation faces a rise in prices of essentials like food and housing, making it difficult for fixed-income groups to afford necessities. Businesses, however, report higher revenues due to increased prices.
(i) Identify the stage of inflation described in the extract.
(ii) Explain any four characteristics of this stage of inflation.

Ans : MAIN 2012

(i) Running Inflation : Characterized by rapid price increases, typically in the range of 10%-20%.
(ii) Characteristics of Running Inflation :
(a) High price increase : Prices rise at a faster rate, significantly impacting the economy.
(b) Affects fixed-income groups : Reduces purchasing power, making it harder for them to afford goods and services.
(c) Business profitability : Businesses may benefit initially as higher prices boost revenues.
(d) Needs immediate control : Often requires strong monetary measures to prevent it from escalating into hyperinflation.

114. Read the extract and answer the following questions :
A developing country's food basket consists largely of grains, vegetables, and pulses. The prices of these items increased sharply, leading to a surge in CPI inflation, which hit rural households the hardest.
(i) Name the key component of CPI mentioned in the extract.

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16. Who manages the buffer stock of food grains?
(a) FDI
(b) PDS
(c) State Government
(d) Central Government

Ans : SQP 2010

(b) PDS
The Public Distribution System maintains a buffer stock of food grains to ensure availability during crises or reduced agricultural output. This system helps provide food security and stability in the nation.

17. Under which act was BIS established?
(a) BIS Act, 2014
(b) BIS Act, 2016
(c) BIS Act, 1986
(d) BIS Act, 1987

Ans : COMP 2015

(b) BIS Act, 2016
The Bureau of Indian Standards (BIS) was established under the BIS Act, 2016. This act replaced the BIS Act of 1986 to ensure the harmonious development of standardization, marking, and quality certification of goods.

18. Public Distribution system is a/an _____ measure of government to protect the consumers.
(a) Administrative
(b) Technical
(c) Collateral
(d) Demonstrative

Ans : MAIN 2021

(a) Administrative
The Public Distribution System (PDS) is an administrative measure aimed at ensuring food security. It provides essential commodities like food grains at subsidized rates through fair price shops, particularly to economically weaker sections of society.

19. Under Right to Information, any citizen of India may request information from a _____ authority.
(a) Public
(b) Private
(c) Personal
(d) Professional

Ans : SQP 2021

(a) Public
The Right to Information (RTI) Act allows citizens to access information from public authorities. It was enacted in 2005 to promote transparency and accountability in government functions and empower citizens to make informed decisions.

20. **Assertion (A) :** Consumer exploitation occurs when sellers take undue advantage of buyers, often by charging higher prices or providing poor-quality goods.
Reason (R) : Lack of consumer awareness and ignorance about their rights are major reasons for consumer exploitation in India.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2011

(a) Both A and R are true, and R is the correct explanation of A.
Consumer exploitation happens due to factors like overpricing and poor-quality products. The lack of consumer awareness about rights enables sellers to exploit buyers.

21. **Assertion (A) :** The Consumer Protection Act (COPRA) provides legal protection to consumers from exploitation.
Reason (R) : COPRA ensures the establishment of consumer courts and promotes consumer rights, such as the right to safety and information.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2012

(a) Both A and R are true, and R is the correct explanation of A.
COPRA aims to protect consumer interests by promoting rights like safety, information, and grievance redressal through consumer courts.

22. **Assertion (A) :** Food adulteration poses severe health risks and affects the quality of life.
Reason (R) : Adulteration often involves mixing cheaper or harmful substances into food products to increase profits.

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CHAPTER 9

CONSUMER AWARENESS

SUMMARY

1. CONSUMER

A consumer is someone who buys goods and services for personal use.

2. CONSUMER EXPLOITATION

Consumer exploitation occurs when sellers or producers deceive customers by overcharging, providing poor-quality goods, selling fake products, or adopting unfair trade practices for personal benefit.

3. FORMS OF CONSUMER EXPLOITATION

3.1 Underweight and Under-Measurement

Goods sold are often not weighed or measured accurately, causing consumers to receive less than what they paid for.

3.2 High Prices

Traders frequently charge more than the retail price, unfairly increasing costs for consumers.

3.3 Substandard Quality

Sellers provide goods of inferior quality, such as expired medicines or faulty appliances.

3.4 Hoarding and Black-Marketing

Essential items are deliberately withheld from the market to create scarcity and drive up prices. Black-marketing involves secretly selling these hoarded goods at inflated rates.

3.5 Sale of Spurious Products

Fake or counterfeit products are sold in place of genuine ones, often seen with medicines and health products.

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3.6 Duplicate Articles

Counterfeit items are sold under the guise of authentic brands, misleading consumers.

3.7 Adulteration and Impurity

Edible goods, like spices, milk, and ghee, are mixed with harmful substances to increase profits, causing health and financial harm.

3.8 Lack of Safety Devices

Substandard electrical or electronic items lacking proper safety standards are sold, leading to potential accidents.

3.9 Artificial Scarcity

Traders deliberately create shortages by hoarding goods, manipulating demand, and increasing prices.

3.10 False and Incomplete Information

Sellers provide misleading or incomplete details about products, deceiving consumers.

3.11 Unsatisfactory After-Sale Service

Suppliers fail to deliver adequate support or services after selling products like electronics or automobiles.

4. REASONS FOR CONSUMER EXPLOITATION

1. Limited information
2. Limited competition
3. Lack of bargaining power
4. Misleading advertisements
5. Cumbersome legal procedures
6. Limited supplies
7. Low literacy rates
8. Irregular pricing
9. Lack of consumer unity

5. CONSUMER AWARENESS

Consumer awareness refers to consumers being informed about their rights, responsibilities,

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(ii) Explain any four characteristics of the food basket in CPI.

Ans : COMP 2021

(i) Food Basket : A key component of CPI that includes essential food items like grains, vegetables, and pulses.

(ii) Characteristics of the Food Basket in CPI :
   (a) High weight age : Food items have significant importance in CPI, especially in developing economies.
   (b) Direct impact on households : Changes in food prices directly affect consumer budgets and living costs.
   (c) Sensitive to supply disruptions : Factors like weather conditions or transportation issues can sharply influence food prices.
   (d) Rural and urban differences : Rural CPI baskets often have higher weight age for staples, while urban baskets include processed and packaged foods.

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3. Read product labels carefully.
4. Avoid misleading advertisements.
5. Be cautious of fraudulent schemes.
6. Request bills, receipts, and warranties.
7. Purchase standardized products.
8. Follow manufacturer instructions while using products.
9. Be knowledgeable about consumer rights.

13. FOOD ADULTERATION

13.1 Definition

Food adulteration refers to the intentional alteration of food by adding or removing substances, compromising its quality and safety to enhance appeal or shelf life.

13.2 Harmful Effects

1. Increases impurities in food.
2. Reduces nutritional value.
3. Leads to health issues and diseases.
4. Deteriorates food quality.

14. PUBLIC DISTRIBUTION SYSTEM (PDS)

14.1 Overview

PDS is a government-managed food security initiative that distributes grains at affordable prices, ensuring access for the poor.

14.2 Functioning

1. Jointly operated by Central and State Governments.
2. Procures grains at Minimum Support Price (MSP).
3. Distributes grains via fair price shops.

15. GOALS

1. Ensure food security and afford ability for all citizens.
2. Provide essential commodities every month to identified beneficiaries.

16. IMPORTANCE

1. Stabilizes food prices and ensures availability to the poor.
2. Maintains buffer stocks for consistent food supply.
3. Facilitates redistribution of grains to regions in need.
4. Supports increased food production through MSP.

17. BUREAU OF INDIAN STANDARDS (BIS)

17.1 Role

BIS, under the BIS Act 2016, regulates standardization and certification of goods.

17.2 Significance

1. Promotes consumer safety and product reliability.
2. Supports fair trade practices and consumer confidence.
3. Enhances product quality through testing and regulation.

18. AGMARK

1. Origin : The term “AGMARK” combines “AG” (Agriculture) and “MARK” (certification mark).
2. Purpose : It certifies agricultural products in India, ensuring they meet standards set by the Directorate of Marketing and Inspection under the Government of India.
3. Standards : Currently, it covers 205 commodities, including pulses, cereals, oils, fruits, vegetables, and semi-processed products like vermicelli.

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19. ECOMARK

1. Issued by : Bureau of Indian Standards (BIS) under the Ministry of Environment and Forests.
2. Purpose : Certifies eco-friendly products that adhere to environmental and BIS quality criteria.
3. Products : Includes 16 categories like food, medicines, electronics, lubricants, and packaging materials.

19.1 Objectives of ECOMARK

1. Incentivize producers/importers to minimize environmental harm from their products.
2. Recognize companies for initiatives to reduce environmental impact.
3. Encourage consumers to consider environmental factors in purchases.
4. Promote eco-friendly products among citizens.

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28. Study the relationship in the first pair of terms and complete the second pair.
(i) Food Adulteration : Mixing harmful substances in food.
(ii) Harmful Effects : _____.
(a) Improves food preservation
(b) Causes health issues like food poisoning
(c) Increases food prices
(d) Enhances nutritional value

Ans : MAIN 2019

(b) Causes health issues like food poisoning
Food adulteration introduces harmful substances, leading to health problems such as food poisoning, organ damage, and long-term diseases like cancer.

29. Study the relationship in the first pair of terms and complete the second pair.
(i) COPRA : Protects consumer rights.
(ii) RTI (Right to Information) : _____.
(a) Prevents unfair trade practices
(b) Empowers citizens to seek government transparency
(c) Focuses on ensuring food safety
(d) Regulates product quality

Ans : SQP 2020

(b) Empowers citizens to seek government transparency
RTI ensures citizens can access information about government decisions and policies, promoting accountability and transparency to prevent misuse of power.

30. Study the relationship in the first pair of terms and complete the second pair.
(i) Right to Safety : Protection from hazardous goods.
(ii) Right to Choose : _____.
(a) Freedom to select certified products
(b) Forced to buy specific products
(c) Limited options available to consumers
(d) Ignoring product comparisons

Ans : COMP 2021

(a) Freedom to select certified products
The right to choose ensures consumers can select products and services freely without coercion, promoting competition and preventing monopolistic practices.

31. Study the relationship in the first pair of terms and complete the second pair.
(i) BIS : Standards for industrial products.
(ii) ECOMARK : _____.
(a) Certifies eco-friendly products
(b) Focuses on agricultural products
(c) Ensures product safety only
(d) Applicable only to food items

Ans : MAIN 2022

(a) Certifies eco-friendly products
ECOMARK is a certification for environmentally friendly products that meet eco-friendly criteria, promoting sustainability and consumer awareness of environmental impact.

32. Study the relationship in the first pair of terms and complete the second pair.
(i) Food Adulteration : A form of consumer exploitation.
(ii) Overcharging : _____.
(a) Charging lower prices than MRP
(b) Selling substandard goods
(c) Selling goods at higher than fair prices
(d) Avoiding product labeling

Ans : SQP 2023

(c) Selling goods at higher than fair prices
Overcharging occurs when sellers exploit consumers by charging more than the fair or maximum retail price (MRP), violating consumer rights.

33. Study the relationship in the first pair of terms and complete the second pair.
(i) PDS : Distributes essential goods at subsidized prices.
(ii) BIS : _____.
(a) Ensures eco-friendliness of products
(b) Focuses on fair pricing of goods
(c) Certifies product quality and safety standards
(d) Distributes consumer goods

Ans : COMP 2024

(c) Certifies product quality and safety standards
BIS ensures that products meet safety and quality standards, protecting consumers from substandard and hazardous goods in the market.

34. "Charging an unfairly high price for essential goods during a natural disaster is an example of which form of consumer exploitation?"
(a) Adulteration
(b) Hoarding
(c) Black marketing
(d) Overcharging

Ans : SQP 2001

(d) Overcharging

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(a) An individual citizen
The RTI Act allows individual citizens to seek information and question the government's accountability.

9. Which right is violated when a shopkeeper forces a customer to buy one product with another?
(a) Right to safety
(b) Right to be informed
(c) Right to represent
(d) Right to choose

Ans : COMP 2017

(d) Right to choose
The Right to Choose allows consumers the freedom to decide what they wish to purchase without coercion or conditions imposed by sellers.

10. Which factor contributes to consumer exploitation?
(a) Limited competition
(b) Illiteracy of consumers
(c) Misleading information
(d) All of the above

Ans : MAIN 2016

(d) All of the above
Consumer exploitation is caused by multiple factors like limited competition, illiteracy, and misleading information, making consumers vulnerable to unfair practices.

11. What is the slogan for consumer awareness in India?
(a) Jaago Bandhu Jaago
(b) Jaago Grahak Jaago
(c) Jankari Jhuri Shopping Poori
(d) None of the above

Ans : SQP 2015

(b) Jaago Grahak Jaago
"Jaago Grahak Jaago" is a popular slogan in India to promote consumer awareness and rights.

12. Which statement about the Consumer Protection Act is incorrect?
(a) It applies to only food items sold in India.
(b) It covers all sectors – public, private, or cooperatives.
(c) It establishes a three-tier dispute redressal system.
(d) It was enacted in 1986 and replaced by COPRA 2019.

Ans : COMP 2014

(a) It applies to only food items sold in India.
The Consumer Protection Act is applicable to all sectors, not just food items. It ensures comprehensive protection for consumer rights across various industries

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13. Under which act can consumers seek compensation for product liability?
(a) Consumer Protection Act, 1986
(b) Consumer Rights under COPRA, 2019
(c) Right to Information
(d) Consumer Protection Act, 2019

Ans : MAIN 2013

(b) Consumer Rights under COPRA, 2019
The Consumer Protection Act, 2019 introduced the right to seek compensation under product liability. This ensures that consumers can claim compensation for any harm caused by defective goods or deficient services.

14. What are the harmful effects of food adulteration?
(a) Decreased nutritional value
(b) Increased impurities in food
(c) Lower food quality
(d) All of the above

Ans : SQP 2012

(d) All of the above
Food adulteration involves adding harmful substances or removing valuable ones from food, leading to reduced nutritional value, increased impurities, and compromised quality, ultimately harming consumer health.

15. Who is responsible for operating the Public Distribution System (PDS)?
(a) Ministry of Consumer Affairs, Food, and Public Distribution
(b) Central and State Governments
(c) Central Government
(d) State Governments

Ans : COMP 2011

(b) Central and State Governments
The Public Distribution System operates under the joint management of the Central and State Governments. The Central Government procures food grains, and State Governments distribute them to beneficiaries through fair price shops.

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consumer laws, and mechanisms for redressal. Awareness enables buyers to make better purchasing decisions. For instance, the campaign "Jago Grahak Jago" promotes consumer awareness in India.

6. DUTIES OF CONSUMERS

1. Buy quality products at fair prices.
2. Check weights and measures before purchasing.
3. Read product labels carefully.
4. Avoid falling for misleading advertisements.
5. Be aware of fraudulent schemes.
6. Request bills, receipts, and warranties.
7. Buy standardized products.
8. Use products as per the manufacturer's instructions.
9. Know your consumer rights.

7. CONSUMER PROTECTION ACT (COPRA) 2019

7.1 Introduction

COPRA 2019 replaced the Consumer Protection Act of 1986 to strengthen consumer rights. It addresses pending complaints in consumer courts nationwide and resolves grievances efficiently.

7.2 Objective

The act aims to safeguard consumer rights by creating authorities for timely and effective management of disputes.

8. FEATURES OF THE CONSUMER PROTECTION ACT, 2019

8.1 Expanded Definition of Consumer

Includes offline, online, and electronic transactions, such as e-commerce, telemarketing, and multi-level marketing.

8.2 Central Consumer Protection Authority (CCPA)

1. A regulatory body proposed under the Act.
2. Can take Suo-moto action to address violations of consumer rights or unfair trade practices.

8.3 Consumer Disputes Redressal Commissions (CDRCs)

1. Established at the district, state, and national levels to resolve consumer complaints.

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8.4 Penalties for False Advertising

The CCPA can impose penalties or imprisonment on manufacturers or endorsers involved in misleading advertisements.

8.5 Comprehensive Coverage

The Act applies to all products and services, except those explicitly exempted by the Central Government.

8.6 Jurisdiction Limit Changes

1. District Commission : Cases up to ₹1 crore.
2. State Commission : ₹1 crore to ₹10 crore.
3. National Commission : Above ₹10 crore.

8.7 E-Filing of Complaints

Consumers can file complaints online and participate in hearings via video concerning.

9. CONSUMER RIGHTS UNDER COPRA 2019

Five new rights were added:

1. Right to file complaints from any location.
2. Right to protect consumers collectively.
3. Right to know why a complaint was rejected.
4. Right to seek compensation for product liability.
5. Right to hearings via video concerning.

10. RTI (RIGHT TO INFORMATION)

RTI enables citizens to hold the government accountable by seeking information about its actions. The RTI Act 2005 empowers individuals to exercise this right effectively.

1. False and Incomplete Information : Sellers may provide inaccurate or incomplete details, misleading consumers.
2. Unsatisfactory After-Sale Service : Sellers fail to provide adequate support or services after selling items like electronics and automobiles.

11. CONSUMER AWARENESS

Being aware of consumer rights, protection laws, redressal mechanisms, and responsibilities enables customers to make informed decisions. Awareness campaigns, such as "Jago Grahak Jago," educate consumers about their rights.

12. DUTIES OF CONSUMERS

1. Purchase quality products at reasonable prices.
2. Verify weights and measurements before buying.

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(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : SQP 2013

(a) Both A and R are true, and R is the correct explanation of A.
Adulteration compromises food safety by introducing harmful substances, endangering consumer health while being profit-driven, making the reason an accurate explanation of the assertion.

23. **Assertion (A) :** AGMARK certification ensures the quality of agricultural products in India.
Reason (R) : AGMARK is a government-approved certification mark for agricultural commodities, verifying their purity and standard.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : COMP 2014

(a) Both A and R are true, and R is the correct explanation of A.
AGMARK certifies the quality of agricultural products to ensure purity and adherence to standards, enhancing consumer trust in the safety of agricultural goods.

24. **Assertion (A) :** The Public Distribution System (PDS) is a measure to ensure food security and protect consumers from exploitation.
Reason (R) : PDS provides essential commodities like rice, wheat, and sugar at subsidized rates to low-income households.
(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, and R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Ans : MAIN 2011

(a) Both A and R are true, and R is the correct explanation of A.
PDS aims to protect low-income households by providing essential goods at subsidized prices, reducing hunger and exploitation in the process.

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25. Study the relationship in the first pair of terms and complete the second pair.
(i) Consumer Exploitation : Overcharging for goods.
(ii) Consumer Awareness : _____.
(a) Lack of knowledge about prices
(b) Knowledge of consumer rights and protection laws
(c) Dependence on unfair traders
(d) Ignoring product warranties

Ans : SQP 2015

(b) Knowledge of consumer rights and protection laws
Consumer awareness involves understanding consumer rights, responsibilities, and protection mechanisms to prevent exploitation and ensure fair treatment in the marketplace.

26. Study the relationship in the first pair of terms and complete the second pair.
(i) BIS : Certifies product quality.
(ii) AGMARK : _____.
(a) Certifies services
(b) Certifies agricultural product quality
(c) Focuses on industrial products only
(d) Ensures eco-friendly goods

Ans : MAIN 2016

(b) Certifies agricultural product quality
AGMARK ensures the quality of agricultural products by certifying them according to government standards, safeguarding consumer health and promoting trust.

27. Study the relationship in the first pair of terms and complete the second pair.
(i) Consumer Rights : Right to safety.
(ii) Consumer Duties : _____.
(a) Be dishonest in dealings
(b) Purchase standardized products like BIS-certified goods
(c) Ignore product information
(d) Avoid using bills or receipts

Ans : COMP 2017

(b) Purchase standardized products like BIS-certified goods
Consumers must fulfill their duties by purchasing certified products to ensure safety and quality, contributing to consumer protection and market accountability.

MULTIPLE CHOICE QUESTION

1. The 'Right' which allows the consumer to receive due consideration at appropriate forum relating to his/her welfare is:
(a) Right to education
(b) Right to seek redressal
(c) Right to be heard
(d) Right to be informed

Ans : MAIN 2024

(c) Right to be heard
The right to be heard guarantees that consumers have a platform to voice their concerns and participate in decision-making processes related to their welfare. This includes forming non-political and non-commercial consumer organizations that represent consumer interests in governmental and other committees, ensuring their issues are appropriately addressed and considered.

2. The State Electricity Board sells electricity at cheaper rates for domestic use than for commercial use. Given statement shows an act of:
(a) Product differentiation
(b) Price discrimination
(c) Consumer exploitation
(d) Price determination

Ans : SQP 2024

(b) Price discrimination
Price discrimination takes place when a seller charges different prices for the same product or service to different consumers or groups of consumers. In this scenario, the state electricity board charges varying rates for domestic and commercial use, even though the product identical.

3. Which of the following is a form of consumer exploitation?
(a) Limited competition
(b) Illiteracy
(c) Food adulteration
(d) Consumer forum

Ans : COMP 2023

(c) Food adulteration
If the market has adulterated food, it signifies consumer exploitation.

4. Which organization operates globally to safeguard consumer rights?
(a) Consumer Count of Justice
(b) International Consumer Forum
(c) Consumer's Commission
(d) Consumer's International

Ans : MAIN 2021

(d) Consumer's International
Consumer's International is an international membership organization that works to protect and promote consumer rights globally.

5. Which agency does not issue standardization certificates in India?
(a) Agmark
(b) ISI
(c) Hallmark
(d) COPRA

Ans : SQP 2022

(d) COPRA
COPRA (Consumer Protection Act) is a law protecting consumer rights and does not provide standardization certifications like Agmark or ISI.

6. Which act was implemented in October 2005 by the Indian government?
(a) Right to Choose Act
(b) Right to Information Act
(c) Right to Safety Act
(d) None of the above

Ans : COMP 2022

(b) Right to Information Act
The RTI Act, 2005, empowers citizens to seek information and hold the government accountable for its functions and decisions.

7. What is an example of consumer exploitation?
(a) Duplicate articles
(b) Buying standardized products
(c) Knowledge of consumer rights
(d) Purchasing quality goods

Ans : MAIN 2019

(a) Duplicate articles
Selling duplicate or fake articles is a form of consumer exploitation as it misleads consumers and causes financial loss.

8. Who can file for information under the RTI Act, 2005?
(a) An individual citizen
(b) A registered company
(c) A group of persons
(d) An association/society

Ans : SQP 2018

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Overcharging refers to selling goods or services at prices higher than their fair market value, especially during emergencies or shortages, exploiting consumer vulnerability.

35. "Which act was passed in India to protect consumer rights and ensure they are not exploited?"
(a) Right to Information Act (RTI)
(b) Consumer Protection Act (COPRA)
(c) Essential Commodities Act
(d) Public Distribution Act

Ans : COMP 2002

(b) Consumer Protection Act (COPRA)
COPRA was enacted to safeguard consumer rights, address grievances, and promote fair practices by providing a legal framework for consumer protection.

36. "Adulterating food with harmful substances like dyes or chemicals can result in which of the following harmful effects?"
(a) Improved taste and quality
(b) Health hazards and diseases
(c) Reduced consumer prices
(d) Increased nutritional value

Ans : MAIN 2003

(b) Health hazards and diseases
Food adulteration introduces harmful substances, leading to serious health issues, including food poisoning, organ damage, and chronic diseases, compromising consumer well-being.

37. "The Public Distribution System (PDS) aims to:"
(a) Increase the price of essential goods.
(b) Provide subsidized food grains to the poor.
(c) Promote private sector competition.
(d) Regulate luxury goods.

Ans : SQP 2004

(b) Provide subsidized food grains to the poor.
PDS is a government initiative to ensure food security by distributing essential commodities, like rice and wheat, at subsidized prices to vulnerable sections of society.

38. "Which consumer right enables individuals to seek information about goods, services, or policies affecting their interests?"
(a) Right to Choose
(b) Right to Information (RTI)
(c) Right to Safety
(d) Right to be Heard

Ans : COMP 2005

(b) Right to Information (RTI)
The Right to Information empowers consumers to access details about goods, services, and government policies, ensuring transparency and enabling informed decision-making.

39. Ms. Priya explained that 'consumer exploitation occurs when consumers are cheated or taken advantage of by sellers in the marketplace.' What is one common form of consumer exploitation?
(a) Misleading advertisements
(b) Providing free goods
(c) Reducing product prices
(d) Increasing consumer awareness

Ans : SQP 2006

(a) Misleading advertisements
Misleading advertisements are a common form of consumer exploitation where false or deceptive claims about products or services are made to influence consumers.

40. Mr. Sharma discussed a right that 'ensures consumers are informed about the quality, quantity, price, and safety of goods and services before purchase.' Which consumer right is this?
(a) Right to Safety
(b) Right to Information
(c) Right to Choose
(d) Right to Redressal

Ans : COMP 2007

(b) Right to Information
The Right to Information enables consumers to make informed decisions by knowing details about products or services, preventing exploitation.

41. Ms. Rekha explained that 'the Consumer Protection Act (COPRA) was enacted to safeguard consumer interests and address grievances effectively.' When was COPRA introduced in India?
(a) 1986
(b) 1991
(c) 2005
(d) 2010

Ans : MAIN 2008

(a) 1986
COPRA, introduced in 1986, established legal frameworks for addressing consumer grievances and protecting their rights in India.

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82. Why are consumers exploited by retailers?

Ans : MAIN 2015

Consumers are exploited by retailers due to:
(i) Lack of Knowledge : Many consumers lack awareness about product prices, quality, and services, leading them to blindly trust sellers.
(ii) Illiteracy : Uneducated consumers are misled by sellers using false claims or branding similar to reputed products.
(iii) Malpractice of Businessmen : Fraudulent practices and selling sub-standard goods exploit consumer trust.
(iv) Unorganized Consumers : Consumers are scattered and lack unity, making them vulnerable to exploitation by organized and powerful traders.

83. Explain any three rights of a consumer.

Ans : COMPM 2012

The Consumer Protection Act grants the following rights:
(i) Right to Safety : Protection against hazardous goods and services that could endanger life or property. Certification marks like ISI and AGMARK ensure safety.
(ii) Right to Be Informed : Ensures consumers receive accurate details about product quality, price, and expiry, aiding informed purchasing decisions.
(iii) Right to Choose : Guarantees access to a variety of goods at fair prices, fostering competition in the market.

84. Give the expanded form of COPRA and RTI.

Ans : MAIN 2011

The full form of COPRA is Consumer Protection Act, which aims to safeguard consumer rights. RTI stands for Right to Information, empowering citizens to access government records for transparency, except those affecting public and national interest.

85. What is AGMARK?

Ans : COMP 2009

AGMARK is a certification mark ensuring the quality of agricultural products in India. Derived from "Agriculture" and "MARK," it is approved by the Directorate of Marketing and Inspection. It certifies 205 commodities, including pulses, cereals, oils, fruits, vegetables, and semi-processed products like vermicelli.

86. What is BIS?

Ans : SQP 2010

The Bureau of Indian Standards (BIS) is India's National Standard Body established under the BIS Act, 2016. It ensures standardization, quality certification, and conformity assessment of goods. BIS promotes safe and reliable products, reduces health risks, encourages exports, substitutes imports, and supports environmental protection.

87. Explain any three duties of a consumer.

Ans : MAIN 2011

The Consumer Protection Act specifies key responsibilities for consumers, including:
(i) Awareness of Products and Services : Consumers must stay informed about the quality, safety, and market practices of the goods they purchase.
(ii) Ensuring Safety : Consumers should read labels and follow instructions to use products safely and responsibly.
(iii) Reporting Exploitation : If exploited, consumers must report complaints and take necessary legal actions.

88. (i) What is the full form of COPRA?
(ii) Mention any two features of COPRA.

Ans : SQP 2013

(i) The full form of COPRA is the Consumer Protection Act.
(ii) Features of COPRA:
  (a) It establishes a three-tier system for consumer dispute redressal at the national, state, and district levels.
  (b) It applies to all goods and services across private, public, and corporate sectors.

89. Explain the different rights of a consumer.

Ans : COMP 2014

The rights of a consumer as per the Consumer Protection Act include:
(i) Right to Safety : Protects consumers from hazardous goods and services that could harm life or property.
(ii) Right to Information : Ensures consumers are provided with accurate details about products, such as quality, price, and safety.
(iii) Right to Choose : Allows consumers access to a variety of products and services at competitive prices, ensuring freedom of choice.

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AGMARK is a certification for agricultural products, ensuring their purity and quality, protecting consumers from adulterated goods.

49. Mr. Suresh described the Right to Information (RTI) Act as a law that 'empowers citizens to access information about public authorities and government schemes.' What is a key significance of RTI?
(a) Enables filing legal complaints
(b) Enhances transparency and accountability
(c) Regulates market prices
(d) Provides direct subsidies to consumers

Ans : SQP 2015

(b) Enhances transparency and accountability
The RTI Act ensures transparency and accountability in public administration by granting citizens access to government information and reducing corruption.

50. "Consumer exploitation refers to unfair practices by sellers that harm the interests of consumers."
(i) True
(ii) False

Ans : MAIN 2016

(i) True
Consumer exploitation involves practices like overcharging, adulteration, and misleading advertisements, which negatively impact consumers.

51. "The lack of consumer education is one of the reasons for consumer exploitation in India."
(i) True
(ii) False

Ans : COMP 2017

(i) True
Lack of awareness among consumers about their rights and responsibilities is a major reason for exploitation.

52. "Consumer awareness means understanding one's rights and duties as a buyer."
(i) True
(ii) False

Ans : SQP 2018

(i) True
Consumer awareness is about knowing rights and responsibilities to make informed decisions and avoid exploitation.

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53. "The Right to Information (RTI) allows consumers to access details about the quality and pricing of goods and services."
(i) True
(ii) False

Ans : MAIN 2019

(i) True
RTI empowers consumers to seek information from public authorities, ensuring transparency.

54. "Under COPRA, consumers do not have the right to file complaints in consumer courts."
(i) True
(ii) False

Ans : COMP 2020

(ii) False
The Consumer Protection Act (COPRA) allows consumers to seek redressal for grievances in consumer courts.

55. "Consumers have a duty to buy only standardized products with quality certifications like ISI or AGMARK."
(i) True
(ii) False

Ans : SQP 2021

(i) True
Consumers are responsible for ensuring the quality of goods they purchase by looking for certified marks.

56. "Food adulteration refers to the addition of harmful substances to food items to increase profits."
(i) True
(ii) False

Ans : MAIN 2022

(i) True
Adulteration involves mixing harmful substances in food, compromising its quality and safety.

57. "Food adulteration has no significant harmful effects on health."
(i) True
(ii) False

Ans : SQP 2023

(ii) False
Food adulteration can cause severe health issues, including food poisoning, organ damage, and long-term diseases.

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58. "The Public Distribution System (PDS) ensures the availability of essential commodities to consumers at subsidized rates."
(i) True
(ii) False

Ans : COMP 2024

(i) True
PDS is a government initiative to provide essential goods like grains and sugar at affordable prices to the public.

59. "The Bureau of Indian Standards (BIS) provides certifications for product quality and safety."
(i) True
(ii) False

Ans : MAIN 2000

(i) True
BIS ensures the quality and safety of products by issuing standards and certifications like the ISI mark.

60. **Statement 1 :** Consumer exploitation refers to unfair practices like overcharging, adulteration, and false advertising.
Statement 2 : A primary reason for consumer exploitation in India is the lack of consumer awareness.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : SQP 2001

(c) Both Statements 1 and 2 are true.
Consumer exploitation includes practices like overpricing and adulteration. It is prevalent in India due to limited consumer education, unorganized markets, and a lack of stringent enforcement.

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61. **Statement 1 :** COPRA (Consumer Protection Act) provides a legal framework to protect consumer rights.
Statement 2 : COPRA mandates that only central government agencies can handle consumer grievances.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2003

(a) Statement 1 is true and Statement 2 is false.
COPRA protects consumer rights and establishes forums for grievance redressal at district, state, and national levels, allowing consumers to file complaints at multiple levels.

62. **Statement 1 :** AGMARK certifies agricultural products for quality and safety.
Statement 2 : ECOMARK ensures that products are environment-friendly and biodegradable.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : MAIN 2004

(c) Both Statements 1 and 2 are true.
AGMARK certifies agricultural produce for quality, while ECOMARK promotes products that are environmentally safe, ensuring sustainability.

63. **Statement 1 :** The Right to Information Act (RTI) empowers consumers to seek information from public authorities.
Statement 2 : RTI ensures that all complaints by consumers are directly resolved by the Supreme Court of India.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

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Ans : SQP 2004

(a) Statement 1 is true and Statement 2 is false.
RTI enables consumers to access public information, but grievance redressal is handled through appropriate consumer courts, not directly by the Supreme Court.

64. **Statement 1 :** The Bureau of Indian Standards (BIS) ensures the quality and safety of industrial and consumer products in India.
Statement 2 : BIS certification is mandatory for all products sold in India.
(a) Statement 1 is true and Statement 2 is false.
(b) Statement 1 is false and Statement 2 is true.
(c) Both Statements 1 and 2 are true.
(d) Both Statements 1 and 2 are false.

Ans : COMP 2005

(a) Statement 1 is true and Statement 2 is false.
BIS certifies quality and safety, but certification is mandatory only for specific products, such as electrical appliances, where safety is critical.

65. Identify the harmful practice shown in the image.



(a) Overcharging
(b) Adulteration
(c) Black marketing
(d) Hoarding

Ans : SQP 2007

(b) Adulteration
The image shows a vendor mixing a substance (white powder) into milk, which is a harmful practice called adulteration. It involves adding substances to food products to increase quantity, compromising quality and safety.

66. The image below highlights a consumer's right. Identify the right being exercised.



(a) Right to Safety
(b) Right to Information
(c) Right to Choose
(d) Right to Consumer Education

Ans : COMP 2008

(b) Right to Information
The consumer is demanding to see details such as the expiry date and price. This reflects the Right to Information, which ensures that consumers have access to complete and accurate details about a product or service before making a purchase.

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67. The image below demonstrates the role of a technical measure in consumer protection. Which of the following does it represent?



(a) AGMARK
(b) ISI
(c) ECOMARK
(d) Public Distribution System (PDS)

Ans : MAIN 2006

(b) ISI

TWO MARKS QUESTIONS

68. What does RTI stand for? What provision is provided under this Act to the citizens of the country?

Ans : SQP 2024

RTI : Right to Information
The Right to Information Act grants citizens the ability to hold public authorities accountable. It promotes transparency in government operations and strengthens democratic governance by ensuring access to information.

69. What is walking inflation?

Ans : MAIN 2024

Walking inflation refers to a moderate and consistent rise in the overall price level of goods and services over a period of time. When the annual inflation rate remains in a single-digit range, typically between 3% and 10%, it is categorized as walking inflation.

70. What is the meaning of consumer awareness?

Ans : COMP 2023

Consumer awareness refers to the practice of ensuring that buyers are informed about the

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42. Mr. Suresh described food adulteration as 'the act of adding inferior or harmful substances to food items, making them unsafe for consumption.' What is a common harmful effect of food adulteration?
(a) Reduced food costs
(b) Increased nutritional value
(c) Health hazards like food poisoning
(d) Improved shelf life

Ans : COMP 2009

(c) Health hazards like food poisoning
Food adulteration poses serious health risks, such as food poisoning, organ damage, and long-term diseases due to consumption of unsafe substances.

43. Study the relationship in the first pair of terms and complete the second pair.
(i) COPRA : Provides a legal framework for consumer protection.
(ii) Consumer Duties : _____.
(a) Filing complaints for defective goods
(b) Being informed and verifying product quality
(c) Relying on non-standardized products
(d) Ignoring misleading advertisements

Ans : MAIN 2000

(b) Being informed and verifying product quality
Consumer duties include being vigilant about product quality, checking certifications like AGMARK or BIS, and ensuring informed decision-making to avoid exploitation.

44. Ms. Kavita discussed a system that 'ensures the distribution of essential commodities like rice and wheat at subsidized rates to ensure food security.' What is this system called?
(a) Bureau of Indian Standards (BIS)
(b) Consumer Protection System
(c) Public Distribution System (PDS)
(d) Consumer Awareness System

Ans : SQP 2010

(c) Public Distribution System (PDS)
The PDS is a government system to provide essential food grains and commodities to the public, especially to low-income groups, at subsidized prices.

45. Mr. Arvind explained that 'consumers in India are often exploited due to low literacy levels and lack of awareness about their rights.' What is another significant reason for consumer exploitation in India?
(a) Consumer unity
(b) Easy access to legal remedies
(c) Lack of standardized products
(d) Strict government policies

Ans : MAIN 2011

(c) Lack of standardized products
Lack of standardization and proper quality checks often leads to the sale of substandard or adulterated products, exploiting consumers.

46. Ms. Priya discussed the 'Right to Redressal,' which ensures that consumers can seek remedies for grievances. Where can consumers file complaints about defective goods or unfair trade practices?
(a) Consumer Courts
(b) Public Distribution System (PDS)
(c) Bureau of Indian Standards (BIS)
(d) Food and Safety Department

Ans : COMP 2012

(a) Consumer Courts
Consumer courts or forums are legal platforms established under COPRA to address grievances and provide compensation for consumer exploitation.

47. Mr. Ramesh explained the significance of the Bureau of Indian Standards (BIS), which provides certification to ensure product quality. What is a common example of a BIS certification mark?
(a) AGMARK
(b) ISI mark
(c) FPO mark
(d) Hallmark

Ans : SQP 2013

(b) ISI mark
The ISI mark is a certification from BIS, ensuring that products meet specified quality standards and are safe for use.

48. Ms. Rekha explained 'a technical measure introduced to protect consumers from food adulteration and ensure the purity of agricultural products.' What certification is used for this purpose?
(a) ISI mark
(b) FPO mark
(c) AGMARK
(d) ISO certification

Ans : COMP 2014

(c) AGMARK

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76. What is food adulteration? Mention any one harmful effect of food adulteration.

Ans : COMP 2019

Food adulteration refers to the deliberate or unintentional act of reducing the quality of food items by adding inferior substances or removing valuable ingredients. This is done to extend shelf life or make the food appear more appealing to customers.

Harmful Effects:

(i) Increases Food Impurity : Adulteration introduces impurities, making food unsafe for consumption. Prolonged intake of adulterated food can negatively affect health both in the short and long term.

(ii) Reduces Nutritional Value : Adulterated food lacks quality and essential nutrients. It may also have an altered taste. Consuming such food compromises both health and flavor.

(iii) Causes Various Diseases : Consuming adulterated food can lead to chronic illnesses, such as liver disorders, diarrhea, stomach issues, cancer, vomiting, dysentery, joint pain, heart diseases, and food poisoning. These health issues are caused by harmful chemicals and low-quality substances present in the food.

77. Explain two rights of a consumer.

Ans : SQP 2016

(i) Right to Safety : Consumers have the right to be protected against goods and services that are hazardous to life or health. For example, they can ensure that electrical appliances come with safety certifications.

(ii) Right to Information : Consumers have the right to be informed about the quality, quantity, price, and standard of goods or services. This helps them make informed decisions and avoid exploitation.

78. State two reasons for consumer exploitation in India.

Ans : COMP 2015,2014,2012

(i) Lack of Knowledge : Many consumers are unaware of the price, quality, or service standards of commodities. This lack of knowledge makes them trust misleading claims from sellers, leading to exploitation.

(ii) Illiteracy : Uneducated consumers are often deceived by sellers. Misleading words and branded claims trick them into purchasing substandard goods.

(iii) Malpractice by Businessmen : Unethical practices, monopolistic trade, and fraud by businesses result in defective goods and poor services for consumers.

(iv) Unorganized Consumers : Consumers are scattered and lack unity, making them vulnerable to exploitation by organized and powerful businesses.

79. What is meant by RTI?

Ans : MAIN 2015

Right to Information (RTI):Consumers must be safeguarded against fraudulent, deceitful, or misleading information, including advertising, labeling, and other practices. They are entitled to complete and accurate details about products or services.

RTI provides access to the following types of information:

(i) It grants all citizens the right to access information.

(ii) Details related to the delivery of products or services.

(iii) Information about business operations.

(iv) Records maintained by departments.

80. Give the full form of COPRA. How does it benefit consumers?

Ans : SQP 2014

COPRA stands for Consumer Protection Act. It aims to provide quick and affordable redressal of consumer grievances. The Consumer Protection Act (COPRA) ensures comprehensive protection for consumers against exploitation, including defective goods, inadequate services, and unfair trade practices. It introduces efficient mechanisms for resolving disputes and offers a straightforward, cost-effective process for redressing consumer complaints.

81. Mention any two forms of consumer exploitation.

Ans : COMP 2013

(i) Adulteration : Mixing inferior or harmful substances with goods, such as food items, to increase quantity or shelf life, thereby compromising consumer health and product quality.

(ii) False Advertising : Misleading consumers with exaggerated or incorrect claims about a product's features, quality, or benefits to encourage purchases.

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details of items, services, policies, and their rights. It plays a crucial role in helping consumers make informed decisions and choose the best options available.

71. Mention any two features of the Consumer Protection Act.

Ans : SQP 2023

Two notable features of the Consumer Protection Act are:

(i) Consumers have the right to access information regarding various aspects of goods and services, including details about quantity, quality, purity, potency, price, and standards.

(ii) Consumers are entitled to protection against harmful goods and services that could pose risks to life and property, ensuring their safety and well-being.

72. Mention any two duties of a consumer.

Ans : MAIN 2020,2018

(i) Looking for Quality Marks : To prevent adulteration and unethical practices by manufacturers and traders, consumers must prioritize the quality of the products they purchase. They should check for standard certification marks such as ISI, AGMARK, FPO, Woolmark, Eco-mark, and Hallmark when buying goods.

(ii) Asking for a Cash Memo : Consumers should request valid proof of purchase (cash memo/ invoice) when buying goods or services and retain it carefully. This proof is essential for filing complaints. For durable goods, manufacturers often provide a warranty/ guarantee card with the product. Consumers should ensure these documents are properly signed, stamped, and dated and keep them until the warranty or guarantee period ends.

(iii) Reading Labels : It is the consumer's responsibility to read product labels thoroughly. The label should provide accurate and complete information about the product.

(iv) Beware of Misleading Advertisements : Products often appear more appealing in advertisements than they are in reality. Consumers should not be swayed by false or overly attractive advertisements.

(v) Checking Weights and Measures : Sellers may cheat by using incorrect weights and measures. Consumers should ensure the product's weight and measure are accurate by checking the seller's balance and scales vigilantly.

(vi) Making Proper Claims : Consumers must exercise caution when making complaints and seeking compensation for losses or injuries. Unreasonable or exaggerated claims should be avoided, as such actions may be deemed irresponsible. Legitimate complaints should follow proper legal channels when necessary.

(vii) Consumer Awareness : Consumers must stay informed about their rights as sellers may try to deceive them for maximum profit. If a consumer is cheated, they should file a complaint instead of staying silent.

73. What is consumer awareness?

Ans : COMP 2020,2018,2017

Consumer awareness involves understanding consumer protection laws, redress mechanisms, and one's rights and responsibilities while buying goods or services. It is crucial for customers to be informed so they can make informed decisions and choose the right products or services confidently.

74. State any two features of the Consumer Protection Act.

Ans : SQP 2019

(i) The Act creates a three-tier mechanism for addressing consumer disputes at national, state, and district levels.

(ii) It applies universally to all goods and services.

(iii) It encompasses all sectors, including private, public, and corporate organizations.

(iv) The Act ensures specific relief measures and compensation for consumers as necessary.

(v) It establishes Consumer Protection Councils at Central, State, and District levels to advocate for and protect consumer rights.

(vi) The Act's provisions complement existing laws and do not override any other laws currently in effect.

75. Expand the term RTI. How does it benefit a citizen of India?

Ans : MAIN 2019

Right to Information (RTI) : RTI enables citizens to access government records, ensuring transparency, except for information exempted in the interest of public or national security.

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(iv) Right to be Heard : Grants consumers the ability to voice complaints and receive fair redressal.

(v) Right to Redressal : Ensures compensation for grievances like defective products or poor services.

90. Examine the image below. Which consumer right is being exercised when the individual asks for detailed product information like MRP and expiry date?



Ans : SQP 2016

Right to Information : This right ensures that consumers have access to accurate and essential details about the product they are purchasing, such as price, manufacturing, and expiry date, helping them make informed decisions.

91. "Consumer awareness plays a crucial role in protecting consumers from exploitation. Justify this statement with two suitable reasons."

Ans : COMP 2017

(i) Consumer awareness educates individuals about their rights and responsibilities, enabling them to recognize and avoid unfair practices like overpricing, defective goods, or misleading advertisements. This awareness empowers consumers to make informed purchasing decisions.

(ii) Informed consumers demand standardized and quality products, pressuring businesses to adhere to ethical practices and maintain product safety. This contributes to better market practices and reduces exploitation.

92. "Public Distribution System (PDS) ensures food security and benefits low-income groups. Justify this statement with two suitable reasons."

Ans : MAIN 2019

(i) PDS plays a vital role in providing essential commodities such as rice, wheat, and sugar at subsidized rates, ensuring afford ability for economically weaker sections. This system addresses hunger and malnutrition by making food accessible to all.

(ii) It also stabilizes market prices by efficiently distributing surplus food stocks during emergencies, preventing hoarding and ensuring steady supply, particularly during crises like natural disasters or inflationary periods.

93. "Consumer exploitation is a persistent issue in India. Justify this statement with two suitable reasons."

Ans : SQP 2020

(i) Consumers in India are often exploited due to insufficient awareness about their rights and a lack of knowledge about redressal mechanisms. This makes them vulnerable to issues such as defective goods, false advertising, and overcharging.

(ii) Weak enforcement of consumer protection laws, coupled with a lack of accountability among traders, allows exploitative practices to persist, especially in unorganized markets and rural areas.

94. "Food adulteration poses a significant threat to public health. Justify this statement with two suitable reasons."

Ans : COMP 2021

(i) Adulteration compromises the nutritional value of food, exposing consumers to serious health risks such as food poisoning, organ damage, and long-term illnesses. Contaminated food may also lead to life-threatening diseases.

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(ii) Harmful additives like pesticides, synthetic dyes, or toxic chemicals are often used to enhance food appearance or shelf life, causing chronic health issues, including cancer, liver damage, or developmental disorders in children.

95. "Bureau of Indian Standards (BIS) protects consumers by ensuring product quality. Justify this statement with two suitable reasons."

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Ans : MAIN 2022

(i) BIS sets quality and safety benchmarks for a wide range of products, ensuring that consumers receive reliable and safe goods. Products certified by BIS give consumers confidence about their quality and usability.

(ii) By promoting standardization and regulating the market, BIS prevents the sale of substandard or counterfeit goods. This helps reduce consumer grievances and builds trust between consumers and manufacturers.

96. "Right to Information (RTI) empowers consumers to hold authorities accountable. Justify this statement with two suitable reasons."

Ans : SQP 2023

(i) RTI enables consumers to request information from public authorities, ensuring transparency in governance and decision-making. This tool allows citizens to identify gaps or discrepancies in services and demand accountability.

(ii) By exposing corrupt practices or inefficiencies, RTI helps consumers protect their rights and contribute to the improvement of public services, fostering a culture of accountability and trust in government institutions.

97. "Justify the following statement with any two valid arguments:
'Food adulteration is harmful to both consumers and the economy.'"

Ans : MAIN 2000

(i) Adulterated food affects public health severely, leading to diseases such as food poisoning, organ damage, and chronic illnesses like cancer. This not only endangers consumer safety but also increases healthcare expenditures for individuals and governments.

(ii) Economically, food adulteration erodes trust in domestic markets, reducing demand for locally produced goods. It also impacts a country's reputation in global markets, restricting opportunities for export and economic growth.

98. "Justify the following statement with any two valid arguments:
'Consumer awareness is essential to prevent exploitation by traders.'"

Ans : COMP 2024

(i) Consumer awareness enables individuals to understand their rights and recognize unfair practices such as overcharging, false advertising, or selling substandard goods. This knowledge empowers consumers to make informed decisions and avoid falling prey to unethical business practices.

(ii) Awareness also encourages the use of quality certifications like AGMARK, BIS, and ECOMARK. Consumers demand standardized and safe products, pressuring businesses to maintain ethical practices and adhere to legal standards, thus improving market conditions overall.

99. "Justify the following statement with any two valid arguments:
'Public Distribution System (PDS) plays a vital role in ensuring food security."

Ans : SQP 2001

(i) PDS provides subsidized food grains like rice and wheat to low-income groups, ensuring that even the poorest sections of society have access to basic nutrition. This reduces the prevalence of hunger and malnutrition.

(ii) By stabilizing the supply and prices of essential commodities during times of inflation or natural disasters, PDS prevents market hoarding and ensures consistent availability of food items, particularly in rural and economically vulnerable areas.

100. "Justify the following statement with any two valid arguments:
'Right to Information (RTI) is an essential tool for consumer protection.'"

Ans : COMP 2002

(i) RTI promotes transparency by allowing citizens to access information about public services and decisions, thereby exposing corruption or inefficiencies in the system. It ensures accountability from government authorities.

(ii) By empowering consumers to question unfair practices, RTI protects their rights and helps them demand better services or redressal for grievances. It fosters a more responsible governance system, ensuring that policies are implemented fairly and effectively.

101. "Justify the following statement with any two valid arguments:
'COPRA (Consumer Protection Act) is a milestone in safeguarding consumer rights.'"

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Ans : MAIN 2003

(i) COPRA provides a legal framework to protect consumers from exploitation by ensuring their rights to safety, information, and redressal. It empowers consumers to file complaints against unfair practices such as defective goods, overpricing, and misleading advertisements.

(ii) The establishment of consumer forums and redressal agencies under COPRA ensures that grievances are addressed efficiently and fairly. This makes businesses more accountable and promotes ethical practices, contributing to consumer confidence in the market.

102. "Justify the following statement with any two valid arguments:
'Bureau of Indian Standards (BIS) ensures product safety and quality for consumers.'"

Ans : SQP 2004

(i) BIS certifies products that meet safety and quality standards, ensuring that consumers receive reliable goods. For instance, electrical appliances with BIS certification are less likely to pose hazards like electrical shocks or fires.

(ii) By regulating the quality of goods in the market, BIS reduces the chances of substandard or counterfeit products being sold. This protects consumers from financial loss and health risks, while also fostering trust in domestic markets.

103. "Justify the following statement with any two valid arguments:
'Food adulteration laws are essential to ensure consumer safety.'"

Ans : COMP 2005

(i) Strict food adulteration laws ensure that harmful practices like mixing toxic substances, artificial ripening, or contaminating food are minimized. These laws help protect consumers from serious health risks such as food poisoning, organ damage, and long-term illnesses.

(ii) Enforcement of these laws also promotes ethical business practices, encouraging producers to maintain the quality of food products. This builds consumer confidence and prevents market distrust caused by repeated cases of adulteration.

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FIVE MARKS QUESTIONS

104. Read the extract and answer the following question:
Food adulteration is a complex issue that requires a multi-pronged approach involving government intervention, industry cooperation, and consumer awareness. In Country X, addressing food adulteration is an ongoing challenge, but with a concerted effort from all stakeholders, there is hope for creating a safer and more trustworthy food supply chain in the future.

(i) In order to secure consumer rights, what duties should the consumers fulfil?

(ii) Mention any two harmful effects of food adulteration.

Ans : MAIN 2024

(i) Some of the duties to be fulfilled by consumers are:

(a) Awareness : Consumers must remain informed about their rights and responsibilities, including the quality, price, and safety of the products they purchase.

(b) Looking for Quality Marks : Consumers should check for quality marks or certifications on products, which indicate adherence to quality standards and ensure reliability.

(c) Asking for Cash Memo : It is essential for consumers to request a cash memo or receipt for their purchases. This serves as proof of the transaction and is useful for refunds or exchanges.

(d) Reading Labels : Consumers should read product labels carefully to gather information on ingredients, nutritional content, expiry dates, and usage instructions, aiding in making informed choices.

(e) Honest Transactions : Consumers should practice honesty and fairness in their transactions, avoiding fraudulent actions and expecting the same from sellers.

(f) Ensuring Safety : Consumers should prioritize their safety when purchasing goods or services by checking for safety standards, expiry dates, and any potential hazards.

(g) Filing Complaints : If consumers encounter issues with products or services, they should file complaints with

purchase.

(ii) The right to negotiate prices : While negotiating prices is common in some markets, it is not formally recognized as a consumer right under COPRA.

132. By giving valid reasons, explain which of the following supports consumer awareness:

(i) Public Distribution System (PDS) providing subsidized food grains.

(ii) Consumers checking AGMARK certification before buying agricultural products.

Ans : MAIN 2020

(i) PDS providing subsidized food grains : While it helps ensure food security, PDS does not directly promote consumer awareness, as it is a distribution mechanism.

(ii) Checking AGMARK certification : This is an example of consumer awareness, as it demonstrates that the consumer is ensuring the quality of agricultural products before purchase.

133. By giving valid reasons, explain which of the following represents a violation of consumer rights:

(i) A seller refusing to issue a bill for a product purchased.

(ii) A store providing a discount on bulk purchases.

Ans : COMP 2021

(i) Refusing to issue a bill : This is a violation of consumer rights, as consumers have the right to a proper receipt for their purchases, which is essential for warranty claims and legal redress.

(ii) Providing discounts : This is not a violation of consumer rights, as offering discounts is a common and ethical business practice to attract customers.

134. "Rita and Sohan both purchased a pack of rice from two different shops. While Rita found a BIS-certified pack, Sohan received a pack with no certification. The prices for the two packs were different. Give reasons for the difference in prices for the same product."

Ans : MAIN 2022

(i) The BIS-certified pack ensures that the product meets established safety and quality standards. This certification process involves rigorous testing and compliance with guidelines, which increases production and certification costs. These additional costs justify the higher price of Rita's pack.

(ii) Sohan's pack, without certification, does not undergo the same level of testing or verification. While it is cheaper, it may lack assurance of quality and reliability. Non-certified products often carry the risk of being substandard, which reflects in their lower pricing.

135. "Two families purchased the same brand of cooking oil from different stores. One received a pack with the AGMARK label, while the other did not. The price for the AGMARK-certified oil was higher. Provide reasons for the price difference."

Ans : SQP 2023

(i) AGMARK certification ensures that the cooking oil adheres to purity and quality standards established by the government. It involves stringent checks and compliance with food safety norms, which increase production costs. This added assurance of quality is reflected in the higher price of AGMARK-certified oil.

(ii) The oil without the AGMARK label does not go through such checks, which lowers production costs but leaves room for potential issues like adulteration. While it is cheaper, the lack of certification means it may not guarantee the same level of purity or safety, making it less reliable for consumers.

136. "Two consumers bought milk from different suppliers. One purchased milk with an ECOMARK label, while the other bought regular milk. The price of ECOMARK-certified milk was significantly higher. Explain the reason for the price difference."

Ans : COMP, 2024

(i) ECOMARK-certified milk is produced using environmentally friendly and sustainable methods. The certification ensures that the milk comes from practices that do not harm the environment, such as eco-friendly packaging and sustainable farming techniques. These additional efforts increase production costs, leading to a higher price.

(ii) Regular milk, in contrast, may be produced using conventional farming practices that are less eco-friendly and cheaper. While the price is lower, it does not carry the assurance

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2. High Prices : Traders may charge more than the legally prescribed retail price for their goods.
3. Sub-standard Quality : Products sold may not meet quality standards, such as expired medicines, defective appliances, or deficient goods.
4. Hoarding and Black-marketing : Essential goods are sometimes withheld from the market to create artificial scarcity. These are later sold at inflated prices, either openly or secretly.
5. Sale of Spurious Products : Fake or counterfeit items, particularly in health care, are sold instead of genuine products, posing risks to consumers.
6. Duplicate Articles : Imitation or counterfeit goods are passed off as genuine, misleading consumers.
7. Adulteration and Impurity : Edible items like oils, spices, and ghee are adulterated to increase profits, compromising consumer health.
8. Lack of Safety Devices : Locally made goods like electronics may lack required safety standards, leading to safety risks.
9. Artificial Scarcity : Some sellers hoard goods to create panic and sell them at higher prices.
10. False and Incomplete Information : Misleading or insufficient details are provided to confuse consumers.

109. (i) Explain the term COPRA and RTI.
(ii) Give three features of COPRA.

Ans : SQP 2020

(i) (a) **COPRA** : Stands for Consumer Protection Act. It aims to protect the interests of consumers by providing redressal mechanisms against unfair trade practices.
(b) **RTI** : Stands for Right to Information. It empowers citizens to seek information about government activities, ensuring transparency and accountability.

(ii) Three key features of the Consumer Protection Act (COPRA) :
(a) Three-Tier Redressal System : COPRA establishes a three-level grievance redressal mechanism to resolve consumer disputes efficiently. This includes District Forums, State Commissions, and the National Commission.
(b) Protection Against Exploitation : The Act safeguards consumers from unfair trade practices, defective goods, and deficient services. It ensures consumer rights such as safety, information, and the right to seek redressal.
(c) Right to Compensation : COPRA provides consumers with the right to claim compensation for any harm caused due to defective goods or services. This includes refunds, replacements, or monetary compensation for damages.

110. Briefly explain any five rights of a consumer.

Ans : COMP 2020

(i) Right to Safety : Consumers can demand protection from goods and services harmful to life and property.
(ii) Right to Be Informed : Consumers are entitled to accurate information about products, including their quality, price, and safety.
(iii) Right to Choose : Consumers can select from a variety of products and services at competitive prices.
(iv) Right to Be Heard : Consumers can voice complaints and grievances, ensuring their interests are represented.
(v) Right to Seek Redressal : Consumers can claim compensation for unfair trade practices or defective goods/services.
(vi) Right to Consumer Education : Consumers have the right to learn about their rights and responsibilities.

111. Mention one way by which consumers are exploited in the market. Explain clearly three reasons as to why consumers are exploited.

Ans : MAIN 2017

Consumers are exploited in the market through the sale of poor quality products. Traders often deceive consumers by selling substandard items, including expired goods, defective products, or items with misleading packaging and labels.

Reasons for Consumer Exploitation :

(i) Lack of Knowledge : Many consumers lack adequate knowledge about the price, quality, and standards of goods. They are unaware of their rights and rely solely on the information provided by sellers, which may be false or misleading.

(ii) Illiteracy : Illiterate consumers are unable to understand product details or terms and conditions. They may fall victim to deceptive

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marketing tactics, including exaggerated claims or fake branding, which lead to purchasing inferior products.

(iii) **Malpractice by Businessmen :** Businessmen may engage in unethical practices such as black marketing, adulteration, or selling substandard goods. Fraudulent activities include tampering with measurements, overcharging, or promoting counterfeit products, all of which exploit consumers' trust and lead to financial and product dissatisfaction.

112. 'An alert consumer is a safe consumer.' Give reasons to support your answer.

Ans : SQP 2015

An alert consumer is aware of their rights and duties, ensuring safety by demanding proper bills, verifying product quality, checking the warranty, and comparing prices.

A consumer's alertness ensures safety through responsible actions, including:

(i) Exercising Rights : Consumers should be aware of their rights related to goods and services and utilize them effectively.

(ii) Making Informed Decisions : Instead of trusting sellers blindly, consumers must analyze and evaluate goods before purchasing.

(iii) Prioritizing Quality : Compromising on product quality for lower prices can lead to inferior goods. Consumers should prioritize reliable goods over cheaper options.

(iv) Avoiding False Advertisements : Sellers often exaggerate through advertisements. Alert consumers can identify misleading claims and make informed choices.

(v) Ensuring Proper Documentation : Consumers must collect receipts, guarantees, and warranties as proof of purchase and safeguard for future issues.

By being vigilant, consumers secure their interests and avoid exploitation.

113. Define a consumer. Explain the importance of educating consumers of their rights.

Ans : COMP 2013

A consumer is an individual who buys goods or avails services for personal use.

Importance of Educating Consumers on Their Rights :

(i) Protection Against Unfair Trade Practices : An educated consumer is aware of their rights, preventing exploitation by businesses. They can also seek redress for any fraud.

(ii) Protection from Deceptive Advertising : Knowledgeable consumers can identify misleading claims regarding product price, quality, or life cycle, thereby saving themselves from financial loss.

(iii) Physical Safety : Educating consumers ensures they can safeguard themselves from harmful products that might pose health risks.

(iv) Protection from Environmental Hazards : Informed consumers can demand accountability from producers for pollution and other ecological issues caused by their products.

Educating consumers ensures safety, awareness, and the ability to act against exploitation.

114. What is meant by food adulteration? Give an example. Mention two harmful effects of food adulteration.

Ans : MAIN 2013

Food Adulteration : It refers to the intentional addition or removal of substances to or from food products, reducing their quality and making them unsafe for consumption.

Example : Adding water to milk or using non-edible colors in food.

Harmful Effects :

(i) Leads to health problems such as food poisoning, stomach ache, or other severe diseases.

(ii) Reduces nutritional value, impacting overall well-being.

115. Briefly trace the growth of consumer awareness in India.

Ans : SQP 2011

Consumer awareness in India has grown with increased knowledge about consumer rights and redressal mechanisms. Consumers now actively participate in protecting their interests by voicing complaints against unfair practices. Over time, they have united to combat business malpractices and have gained awareness of legal protections, enabling them to safeguard their health, safety, and rights.

116. What is PDS? Explain its importance.

Ans : COMP 2006

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Public Distribution System (PDS) : PDS is an Indian food security system managed by the Ministry of Consumer Affairs, Food, and Public Distribution. It ensures the distribution of food grains at affordable prices through fair price shops. Jointly operated by the Central and State Governments, it procures grains from farmers at Minimum Support Prices (MSP) and distributes them to identified beneficiaries.

Importance of PDS :

(i) Ensures Food and Nutritional Security : Provides essential food items to citizens, especially the poor.
(ii) Stabilizes Food Prices : Helps maintain afford ability for the public.
(iii) Maintains Buffer Stock : Stores grains to ensure supply during agricultural crises.
(iv) Redistribution of Grains : Supplies surplus grains to deficient regions.
(v) Encourages Production : Farmers benefit from MSP, boosting agricultural output.

117. What is ECOMARK? Explain its objectives.

Ans : SQP 2021

ECOMARK : ECOMARK is a certification issued by the Bureau of Indian Standards (BIS) for eco-friendly products. It identifies products that meet the prescribed environmental and quality standards set by the Ministry of Environment and Forests, ensuring their ecological safety.

Objectives of ECOMARK :

(i) Encourage producers to reduce the adverse environmental impact of their products.
(ii) Promote awareness among consumers to choose environmentally safe products.
(iii) Reward manufacturers adopting environmentally sustainable practices.
(iv) Improve environmental quality and support sustainable resource management.

118. What is the significance of RTI?

Ans : COMP 2007

The Right to Information (RTI) has several significant aspects :

(i) It enhances citizens' awareness of government functioning.
(ii) It encourages vigilance among citizens, making them conscious of their rights and responsibilities.
(iii) It exposes various scams and supports citizens in making informed decisions.
(iv) RTI is considered a public good that upholds transparency and strengthens democracy.
(v) Citizens can request information, access government records, and monitor progress through RTI.
(vi) It empowers citizens to combat corruption effectively.

119. What is COPRA 2019? Explain any five features of COPRA 2019.

Ans : SQP 2008

The Consumer Protection Act, 2019 replaced the Consumer Protection Act, 1986, to safeguard consumer interests and provide speedy redressal of grievances. The act established mechanisms to address consumer issues effectively.

Features of COPRA 2019 :

(i) Expanded Consumer Definition : Covers offline, online transactions, telemarketing, and multi-level marketing.
(ii) Central Consumer Protection Authority (CCPA) : Established to regulate consumer rights and prevent unfair trade practices.
(iii) Suo Moto Action : CCPA can act on violations prejudicial to public interest.
(iv) Consumer Disputes Redressal Commissions (CDRCs) : Functions at national, state, and district levels to address complaints.
(v) Penalties for Misleading Ads : Manufacturers/ endorsers can face penalties or imprisonment for false advertisements.

120. "In the context of increasing cases of consumer exploitation in India, what are the key responsibilities that consumers should fulfill to safeguard their interests and promote fair trade practices?"

Ans : MAIN 2009

(i) Consumers should demand a proper bill or receipt for every purchase to ensure accountability and maintain proof for future disputes.
(ii) They must check for quality marks like BIS, AGMARK, or ECOMARK on products to ensure they meet safety and quality standards.
(iii) Consumers should educate themselves about their rights under COPRA and file complaints if they encounter exploitation or defective products.
(iv) Actively participating in consumer awareness programs and spreading knowledge about fair practices can contribute to reducing exploitation.

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121. "In the context of food adulteration being a major health hazard, what responsibilities should consumers undertake to ensure the safety and quality of their food?"

Ans : COMP 2010

(i) Consumers should check for certifications like AGMARK on agricultural products and avoid purchasing unbranded or unratified food items.
(ii) They must be vigilant about the appearance and packaging of food products, avoiding items that show signs of tampering or unusual color and texture.
(iii) Consumers should report instances of adulteration to the relevant authorities to ensure strict action is taken against offenders.
(iv) Reading product labels carefully for information on manufacturing and expiry dates ensures that they purchase safe and high-quality food.

122. "In the context of heightened awareness about consumer rights, how can consumers actively utilize the Right to Information (RTI) Act to protect themselves from exploitation by traders and service providers?"

Ans : SQP 2011

(i) Consumers can use RTI to request information from public authorities about the policies, subsidies, and services available to them, ensuring they are not denied their rightful benefits.
(ii) RTI allows consumers to inquire about the quality and safety standards followed by companies and government agencies in the supply chain of essential goods.
(iii) By exposing unfair practices or inefficiencies through RTI, consumers can hold authorities and businesses accountable for their actions.
(iv) RTI empowers consumers to demand transparency, ensuring that information related to products and services is openly shared.

123. "In the context of increasing consumer awareness, explain how checking quality certifications like BIS and AGMARK can protect consumers from exploitation."

Ans : MAIN 2012

(i) Quality certifications like BIS and AGMARK ensure that products meet government-mandated safety and quality standards, protecting consumers from substandard or harmful goods.
(ii) These marks provide consumers with the assurance of reliability, reducing the risk of being exploited through defective or adulterated products. For instance, AGMARK-certified food products guarantee purity, while BIS-certified electrical appliances ensure safety and durability.
(iii) By prioritizing certified products, consumers can support ethical business practices and discourage the sale of unratified or counterfeit goods.

124. "In the context of food adulteration being a growing concern, what measures should consumers and authorities take to reduce its harmful effects?"

Ans : COMP 2013

(i) **Consumers :** They should buy products from trusted sources and check for certifications like AGMARK to ensure food quality. Reading labels for manufacturing and expiry dates helps in identifying fresh and safe products. Reporting suspicious food items to authorities can also curb the spread of adulterated goods.
(ii) **Authorities :** They should conduct regular inspections and raids in markets to identify and penalize sellers involved in adulteration. Awareness campaigns highlighting the harmful effects of adulteration can educate consumers and encourage responsible purchasing habits.

125. "In the context of the Consumer Protection Act (COPRA), what are the key responsibilities of consumers to ensure they are not exploited in the marketplace?"

Ans : SQP 2014

(i) Consumers should stay informed about their rights under COPRA, including the right to safety, information, and redressal, and actively seek legal remedies in case of exploitation.
(ii) They must ensure they purchase products with proper labeling and certification marks like BIS, AGMARK, or ECOMARK to confirm their quality and safety.
(iii) Consumers should always demand a proper bill or receipt for every purchase, which acts as proof in case of disputes or warranty claims.
(iv) By supporting ethical businesses and avoiding counterfeit or unratified products, consumers can promote fair trade practices

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and discourage exploitation.

126. "In the context of the Public Distribution System (PDS), explain how it contributes to consumer protection and food security in India."

Ans : MAIN 2015

(i) PDS ensures the availability of essential food grains like rice, wheat, and sugar at subsidized rates to economically weaker sections of society. This helps combat hunger and malnutrition, especially in rural areas.
(ii) By stabilizing food prices and distributing surplus stocks during inflation or shortages, PDS protects consumers from price exploitation by private traders.
(iii) PDS also improves accessibility to essential commodities through a network of fair price shops, ensuring that even remote regions have access to basic necessities.
(iv) The joint responsibility of the central and state governments ensures efficient implementation, reducing corruption and leakage in the system.

CASE BASED QUESTION

127. By giving valid reasons, explain which of the following is a harmful effect of food adulteration:
(i) Consuming pulses mixed with stones or pebbles.
(ii) Consuming fruits treated with harmful chemicals to ripen faster.

Ans : MAIN 2015

(i) Pulses mixed with stones : This does not directly harm health, but it reduces the quality of the food and wastes the consumer's money.
(ii) Fruits treated with harmful chemicals : This is a harmful effect, as consuming chemically ripened fruits can lead to severe health issues, including stomach disorders and long-term cancer.

128. By giving valid reasons, explain which of the following represents consumer exploitation:
(i) Selling goods at a price higher than the Maximum Retail Price (MRP).
(ii) Providing a warranty for a product without a proper bill.

Ans : SQP 2016

(i) Selling goods at a price higher than the MRP : This is a clear case of consumer exploitation, as retailers are not allowed to charge more than the MRP printed on the product, which includes all taxes and profit margins.
(ii) Providing a warranty without a proper bill : While this is unethical, it does not directly exploit the consumer financially. However, it puts the consumer at risk of being denied warranty benefits if the bill is requested later.

129. By giving valid reasons, explain which of the following is an example of food adulteration:
(i) Adding water to milk to increase its quantity.
(ii) Selling fruits and vegetables grown organically.

Ans : COMP 2017

(i) Adding water to milk : This is food adulteration because it reduces the quality and nutritional value of the milk, potentially harming consumers.
(ii) Selling organic fruits and vegetables : This is not food adulteration, as organic produce is natural and free from harmful chemicals.

130. By giving valid reasons, explain which of the following is a technical measure for consumer protection:
(i) Bureau of Indian Standards (BIS) certifying electrical appliances.
(ii) Selling products at a fair price in local markets.

Ans : MAIN 2018

(i) BIS certifying electrical appliances : This is a technical measure as it ensures that products meet safety and quality standards, protecting consumers from defective or unsafe goods.
(ii) Selling products at a fair price : While this is ethical, it is not a technical measure, as it does not involve specific safety or quality certifications.

131. By giving valid reasons, explain which of the following is included under consumer rights:
(i) The right to be informed about product quality.
(ii) The right to negotiate prices with sellers.

Ans : SQP 2019

(i) The right to be informed : This is a fundamental consumer right under COPRA, as consumers are entitled to accurate information about the quality, quantity, and price of products they

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appropriate authorities or consumer forums to seek resolution and prevent future occurrences.

(ii) Effects of Food Adulteration:
   (a) Stomach Ache : Consumption of adulterated food can lead to severe abdominal discomfort and digestive issues.
   (b) Cholera : Contaminated food can cause life-threatening diseases like cholera, often due to poor hygiene or toxic substances.
   (c) Anemia : Adulterated food may lack essential nutrients, leading to deficiencies like anemia.
   (d) Eye Problems : Certain harmful additives in food can cause vision-related issues or eye irritation.
   (e) Partial Paralysis : Prolonged exposure to toxic adulterants can result in severe conditions like partial paralysis.

105. How are consumers exploited by producers and retailers?

Ans : SQP 2024

Consumer exploitation can take various forms, including:

1. Production of Spurious Goods : Manufacturers may produce counterfeit or fake goods, deceiving consumers by imitating popular brands or products, often compromising on quality and safety.
2. Poor Quality of Products : Some producers intentionally manufacture substandard goods that fail to meet safety or performance standards, deceiving consumers who expect better quality.
3. False Weights and Measures : Retailers might use inaccurate measuring devices or misrepresent quantities, causing consumers to pay for more than they receive, thereby overcharging them.
4. Selling Goods at a Higher Price : Sellers may exploit consumers by engaging in price gouging, charging excessive prices for goods or services, especially when alternatives are limited.
5. Offering Gifts or Prizes to Cheat Consumers : Businesses may employ deceptive marketing tactics, like false promises of gifts or prizes, to lure consumers into purchasing products or services under false pretenses.
6. Selling Second-hand Goods as Brand New : Unscrupulous sellers may misrepresent used or refurbished goods as brand new, misleading consumers who expect genuine products.
7. Creating False Impressions through Sales Strategy : Retailers may use misleading advertisements, deceptive packaging, or aggressive sales techniques to misrepresent the quality, benefits, or value of their products, exploiting consumers' trust.

106. What are the duties of a consumer? (Any five points)

Ans : COMP 2023

Duties of a Consumer:

(i) Consumers should be aware of filing complaints to address genuine grievances.
(ii) They must remain cautious about the quality of products.
(iii) Consumers should carefully evaluate the product they are purchasing.
(iv) They should not be swayed by advertisements.

107. Explain any five ways of exploitation of consumers in a market.

Ans : MAIN 2023

Five ways consumers are exploited are:

(i) Underweight or under-measurement : Consumers may receive less quantity than promised, often occurring during product weighing.
(ii) Goods or services of substandard quality : Consumers may be provided with inferior or low-quality goods, exploiting their trust in the product's value.
(iii) Overpricing : Charging more than the Maximum Retail Price (MRP) or not displaying prices leads to consumer exploitation.
(iv) Harmful articles : Selling adulterated food or defective electronic goods can adversely impact consumer health or safety.
(v) Unsatisfactory after-sales services : Failure to provide adequate post-sale services leaves consumers without necessary support, particularly for regulated products like those in the telecommunications industry.

108. Explain any five ways by which consumers are exploited in India.

Ans : SQP 2020, 2018, 2016, 2014, 2011

1. Underweight and Incorrect Measurement : Goods sold in the market are often not measured or weighed accurately, leading to consumer loss.

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of being environmentally sustainable, which is increasingly important for conscious consumers.

137. "A farmer and a regular consumer purchased wheat grains. The farmer paid a lower price as it was purchased directly from the government's PDS, while the regular consumer paid a higher price at a retail store. Explain the reason for this price variation."

Ans : MAIN 2000

(i) The Public Distribution System (PDS) is designed to provide essential food grains like wheat at subsidized rates to targeted beneficiaries such as farmers and low-income groups. The government absorbs a significant portion of the costs to make food affordable, ensuring food security for vulnerable populations. This explains the lower price paid by the farmer.

(ii) The regular consumer buying from a retail store pays a higher price because retail prices include additional costs such as transportation, storage, retailer margins, and market demand. These factors increase the overall cost of the product, reflecting in the higher price paid by the regular consumer.

138. "Sita purchased fruits from a local vendor, while Meera bought fruits from a certified organic store. The prices of fruits at the organic store were much higher than those at the local vendor. Explain the reason for this price difference."

Ans : SQP 2001

(i) The fruits sold at the organic store are certified as organic, meaning they are grown without synthetic pesticides, fertilizers, or genetically modified organisms. The certification process involves stringent checks and compliance with organic farming standards, which increases the production cost and, consequently, the price.

(ii) Fruits from a local vendor may not be organically certified and are often grown using conventional farming methods that involve lower production costs. These methods may include the use of chemical pesticides and fertilizers, making the fruits cheaper but potentially less safe or nutritious.

139. "Rahul purchased packaged honey with an AGMARK certification, while Shyam bought unbranded honey from a roadside vendor. Rahul paid a higher price for the AGMARK-certified honey. Provide reasons for this price difference."

Ans : COMP 2002

(i) AGMARK-certified honey undergoes thorough testing to ensure it meets government-mandated quality and purity standards. This certification guarantees that the honey is free from adulteration and harmful additives, which enhances consumer trust but also increases production and certification costs, resulting in a higher price.

(ii) Unbranded honey sold by the roadside vendor lacks quality checks and may contain impurities or adulterants like sugar syrups. Since it does not undergo rigorous testing or certification, its production costs are lower, and it is priced cheaply. However, it may not guarantee the same level of safety or quality.

140. "A consumer bought cooking oil from a retail store that was BIS-certified, while another consumer purchased unbranded oil from a local market. The BIS-certified oil was more expensive. Explain the reasons for the price difference."

Ans : MAIN 2003

(i) BIS-certified cooking oil is produced following strict safety and quality standards set by the Bureau of Indian Standards. This certification ensures that the oil is safe for consumption and meets health regulations, which adds to production and compliance costs. This assurance of quality justifies the higher price.

(ii) Unbranded oil from the local market lacks certification and may be produced using cheaper methods without adhering to safety or quality standards. This reduces production costs, making it more affordable. However, it carries a higher risk of being adulterated or unsafe for consumption.

141. Read the extract and answer the following questions:

Ravi purchased packaged rice from a retail store, and it carried the AGMARK label. The store owner assured him of its purity. However, his friend Rahul bought rice from a local vendor without any quality certification.

(i) Name the certification that ensures the quality of agricultural products like rice.

(ii) Explain any four benefits of buying products with the above-mentioned certification.

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Ans : SQP 2004

(i) AGMARK is the certification that ensures the quality of agricultural products like rice.

(ii) Benefits of AGMARK Certification:

(a) It assures the consumer about the purity and quality of the product.

(b) It protects consumers from being cheated with adulterated or substandard goods.

(c) AGMARK-certified products comply with government-mandated safety and quality standards.

(d) The certification helps consumers make informed decisions, encouraging fair trade practices.

142. Read the extract and answer the following questions:

Priya bought cooking oil with a BIS mark from a supermarket, while Neha purchased oil from a roadside vendor without any certification. Later, Neha found impurities in the oil.

(i) Name the certification that ensures the safety and quality of industrial products like cooking oil.

(ii) Explain any four features of the above certification system.

Ans : COMP 2005

(i) BIS (Bureau of Indian Standards) is the certification that ensures the safety and quality of industrial products like cooking oil.

(ii) Features of BIS Certification:

(a) It ensures the product meets the prescribed quality and safety standards.

(b) BIS-certified products undergo rigorous testing, minimizing risks for consumers.

(c) The certification helps eliminate substandard products from the market.

(d) It builds consumer trust, ensuring reliability and safety of certified products.

143. Read the extract and answer the following questions:

A government initiative ensures the distribution of essential food grains like wheat and rice at subsidized rates to low-income households. This initiative aims to promote food security and protect consumers from exploitation by private traders.

(i) Name the system mentioned in the extract.

(ii) Explain any four features of this system that contribute to consumer protection.

Ans : MAIN 2006

(i) Public Distribution System (PDS) is the system mentioned in the extract.

(ii) Features of PDS:

(a) It provides essential food grains at subsidized rates, ensuring afford ability for low-income groups.

(b) It stabilizes market prices by making food available at fair price shops, reducing dependence on private traders.

(c) PDS ensures food security, especially in rural areas and during emergencies like inflation or natural disasters.

(d) It is managed jointly by the central and state governments, ensuring efficient implementation and accessibility.

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144. Read the extract and answer the following questions:

Seema noticed that her favorite fruit brand was using eco-friendly packaging, along with an ECOMARK label, signifying that the product adheres to environmental standards.

(i) What does the ECOMARK label signify?

(ii) Explain any four features of ECOMARK certification and how it benefits consumers.

Ans : SQP 2007

(i) ECOMARK signifies that the product is environmentally friendly and adheres to sustainable production practices.

(ii) Features of ECOMARK Certification:

(a) It ensures that the product has minimal impact on the environment during its production, use, and disposal.

(b) ECOMARK-certified products promote sustainable development by encouraging eco-friendly practices.

(c) Consumers benefit by supporting brands that prioritize environmental safety, fostering a greener planet.

(d) The certification creates awareness about environmentally responsible consumption, influencing better market practices.

145. Read the extract and answer the following questions:

Ramesh bought milk from a certified dairy brand, which had an AGMARK label. However, his neighbor bought milk from a local vendor at a cheaper price but later found it to be adulterated with water and chemicals.

(i) Name the certification that ensures the quality of milk and other agricultural products.
(ii) Explain any four harmful effects of consuming adulterated food products like milk.

Ans : COMP 2008

(i) AGMARK ensures the quality and purity of agricultural products, including milk.
(ii) Harmful Effects of Adulterated Food:
  (a) Adulterated milk can cause food poisoning, leading to nausea, vomiting, and diarrhea.
  (b) Long-term consumption of chemicals in adulterated milk can damage vital organs like the liver and kidneys.
  (c) It reduces the nutritional value of the milk, depriving consumers of essential nutrients.
  (d) Consumption of adulterated milk increases the risk of chronic diseases, such as cancer or developmental issues in children.

146. Read the extract and answer the following questions:
The government introduced a system to provide food grains like rice and wheat to the economically weaker sections at affordable rates. The system operates through fair price shops and ensures the availability of essentials during inflation or crises.
(i) Name the government system mentioned in the extract.
(ii) Explain any four ways in which the system protects consumers from exploitation.

Ans : MAIN 2023

(i) The government system mentioned is the Public Distribution System (PDS).
(ii) Ways PDS Protects Consumers:
  (a) It prevents price exploitation by private traders by offering subsidized food grains at fair price shops.
  (b) It ensures consistent supply and availability of essential commodities, even during times of inflation or scarcity.
  (c) It promotes food security by targeting low-income households and ensuring afford ability.
  (d) It reduces hoarding and black marketing by distributing surplus stock efficiently across the country.

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147. Read the extract and answer the following questions:
Anita always checks for the BIS certification before purchasing electrical appliances like irons or refrigerators. She ensures the products meet safety and quality standards. Her neighbor, however, bought an unratified iron and later experienced a short circuit.
(i) What does BIS certification signify?
(ii) Explain any four benefits of purchasing BIS-certified products.

Ans : COMP 2024

(i) BIS certification signifies that the product adheres to safety, quality, and reliability standards set by the Bureau of Indian Standards.
(ii) Benefits of BIS-certified Products:
  (a) They guarantee safety, reducing the risk of hazards like electrical shocks or short circuits.
  (b) They assure consumers of quality and durability, ensuring value for money.
  (c) BIS-certified products undergo rigorous testing, minimizing the chances of defects.
  (d) The certification builds consumer trust and encourages manufacturers to maintain high-quality standards, ensuring market accountability.

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